SAN DIEGO UNIFIED PORT DISTRICT

CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

PORT of SAN DIEGO

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

Prepared under the direction of:

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Vice President

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PORT of SAN DIEGO

The San Diego Unified Port District (District) was established on December 18, 1962 in accordance with laws of the State of California. The District operates under the Public Trust Doctrine, which specifies that the waterways and waterfronts are primarily reserved for water-dependent uses such as fishing, cargo activity, bay tours, and recreational access such as hotels and restaurants; as well as environmental and natural-habitat preservation.

TABLE OF CONTENTS

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INTRODUCTORY SECTION

(UNAUDITED)

THE 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 (CEO), uses to conduct daily operations.

The District's maritime, real estate, parking, and attractions generate billions of dollars for the region's economy and allow the District to operate without the benefit of tax dollars. The District has the authority to levy a tax, but has not done so since 1970.

PUBLIC TRUST DOCTRINE

The District is also a trustee of state lands subject to 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

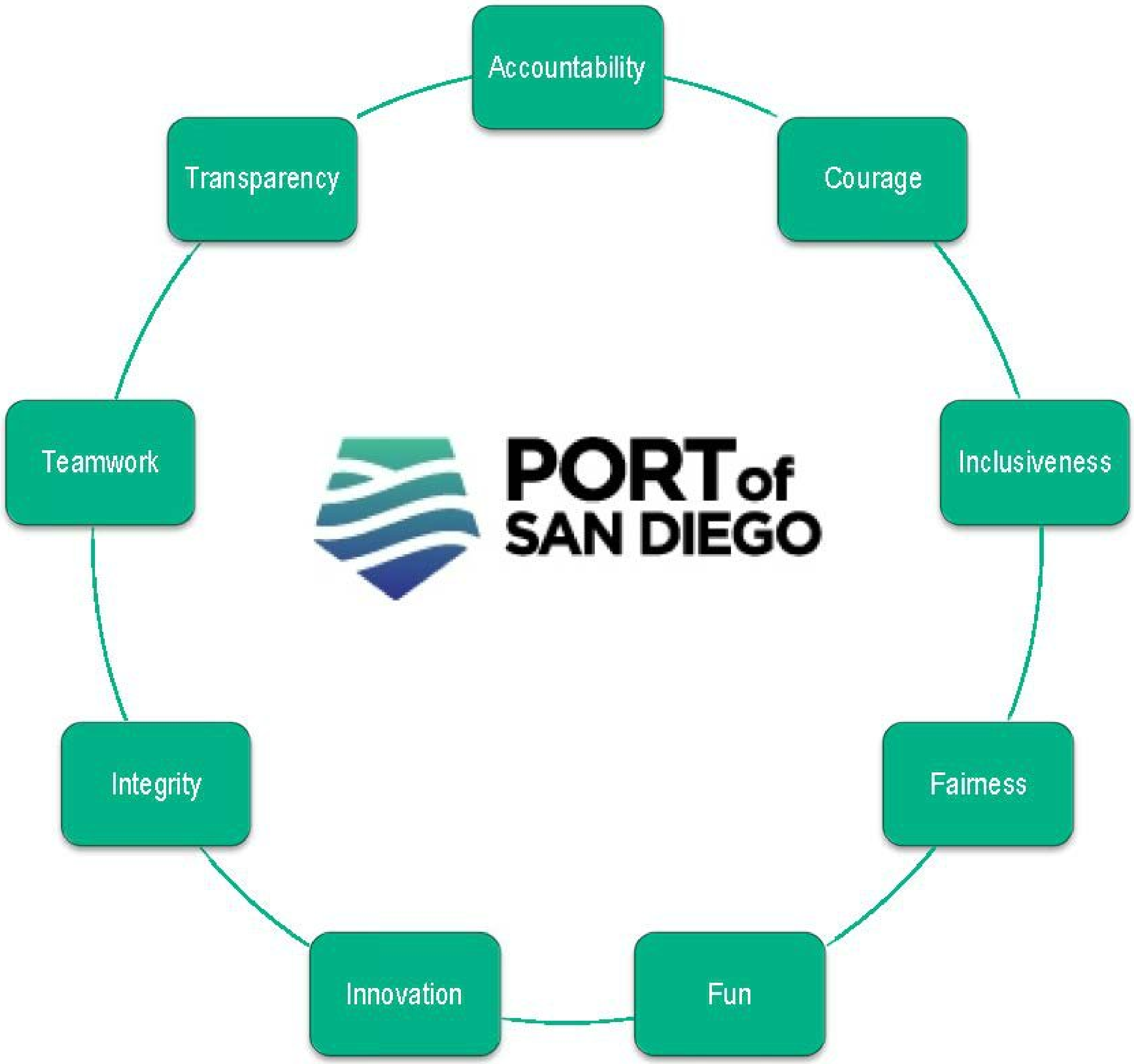
VISION

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



November 15, 2017

To the Board of Port Commissioners and the Public:

It is a pleasure to present the Comprehensive Annual Financial Report (CAFR) of the San Diego Unified Port District (District) for the fiscal year ending June 30, 2017. The purpose of this report is to provide the Board of Port Commissioners (BPC), the California State Lands Commission, 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 ending June 30, 2017. The independent auditor's report is presented as the first component of the Financial Section of the report.

PROFILE OF THE DISTRICT

An autonomous public agency, the District was established on December 18, 1962 in accordance with the 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 San Diego Bay, and for the promotion of commerce, navigation, fisheries, and recreation.

In 2001, the California legislature enacted the San Diego County Regional Airport Authority Act (Airport Authority Act), which established the San Diego Regional Airport Authority (SDCRAA). Effective January 1, 2003, the District transferred all airport operations and certain related assets and liabilities to SDCRAA.

The District is considered the fourth largest of 11 California ports and the largest break-bulk (non-container) port in California. A 21st century port, the District guides development of 34 miles of San Diego Bay's beautiful, natural waterfront with a carefully selected and diverse portfolio of world-class commercial real estate, maritime, and public uses. Fifteen 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 and cruise terminals. The District also maintains 22 public parks, three boat launch facilities, and several fishing piers as amenities that attract visitors and enhance the value of our waterfront.

The District generates revenues from three major operations:

- Real Estate - The District is home to nearly 800 diverse businesses, including hotels, restaurants, retail, marinas, museums and other attractions, and regional economic drivers such as the San Diego Convention Center and the San Diego International Airport, to name a few. The District's real estate team strategically works with companies to develop opportunities to grow their businesses through network collaboration and access, creating vibrant experiences that attract millions of annual visitors and residents each year.

- Maritime - The District's maritime operations includes two cargo terminals and two cruise terminals, lead the working waterfront and facilitate the international and domestic movement of goods and people. District maritime businesses provide thousands of residents with jobs that pay significantly higher than the median wage in the region and generate billions of dollars per year for the regional economy creating a prosperous global economic engine for all. The District's maritime team collaborates with member cities and partners to ensure terminal and cargo projects positively affect all key stakeholders.

- Harbor Police - This Department is the front line of security and service for the San Diego Bay and surrounding tidelands. Harbor Police work in collaboration with the U.S. Coast Guard, Homeland Security, and local law enforcement agencies to ensure safety for visitors and residents. Patrolling the coast, marine terminals, and tidelands, Harbor Police officers deter and prevent crimes like smuggling, terrorism, and human trafficking. Harbor Police also provides protection on the ground for San Diego International Airport, including the use of explosive and narcotic-detecting K-9 officers.

Board of Port Commissioners

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). The BPC appoints the Chief Executive Officer (CEO), who oversees daily operations for the organization. Through resolutions and directives, the BPC sets policies for the District, which are then implemented by the CEO and executive staff.

LOCAL ECONOMY AND OUTLOOK

The national economy grew at a modest pace during the first half of calendar year 2017 and is expected to continue to grow moderately for the remainder of the year, with solid contributions from consumer spending, business equipment investment, and increased government-sector spending. According to various economic reports, the economy, as measured by gross domestic product (GDP), is expected to grow at an annual average rate of 2.2% for calendar year 2017, with the unemployment rate at around 4.4%. Inflation for calendar year 2017 is projected at an annualized rate of 2.0%, the Federal Reserve Bank's target rate. In 2018, the economy is anticipated to grow at a 2.3% annualized rate, with an unemployment forecast of 4.2%. The inflation rate is anticipated to remain at about 2.0%. (Source: Bloomberg survey of U.S. economic indicators from over 87 economists' forecasts, September 2017).

California's economic growth has continued to outpace national growth and is expected to maintain this trend in the next few years. The State's economy accounts for over 13% of the nation's GDP, with the international trade sector a major driver of California's economy. The State continues to add jobs in most industries and more notably in the health care, leisure, and hospitality sectors. The State's GDP forecast is 2.4% for calendar year 2017 and 2.6% for 2018. The forecasted unemployment rate for California is 5.3% for calendar year 2017 and 5.0% for 2018. (Source: Los Angeles County Economic and Development Corporation - Institute for Applied Economics, February 2017).

San Diego's key industries include life sciences, biomedical, technology, tourism, and hospitality sectors as well as a major military presence. The local index of economic indicators has seen positive surges for the last ten months, primarily driven by a significant increase in building permits. (Source: USD Burnham-Moores Center, August 2017). The local economy is expected to expand by 2.1% in calendar year 2017 and 2.3% in 2018 and unemployment rate is forecast at 4.6% in 2017 and 4.5% in 2018. (Source: Los

Angeles County Economic and Development Corporation - Institute for Applied Economics, February 2017). San Diego is a top visitor and convention destination in the nation.

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 ensure effective operations and sound fiscal health. Performing regular financial reviews and developing timely financial strategies that are aligned with the strategic goals can provide valuable information for the District's management and the BPC decision-making process.

The District reviews the strategic goals during the annual planning process and endeavors to set key performance indicators to measure our performance achieving these goals.

Established key performance indicators (KPI's) include:

- Achieve annual Operating Revenue growth of 3.0% to 5.0%
- Accelerate future annual Operating Revenue growth to greater than 5.0%
- Diversify revenue sources through the addition of new lines of business
- Acquire a minimum of $5.0 million of grant income annually
- Continue to reduce professional services expenses 5.0% to 10.0% annually

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 to weather significant economic downturns more effectively and manage consequences of unexpected emergencies. Operating reserves generate investment income, provide a 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 BPC Policy No. 117 - Operating Reserve Policy, in general, calls for a cash reserve of 50.0% of budgeted operating and maintenance expenses reduced by certain revenue sources. The balance is established annually upon the adoption of the fiscal year budget. The current operating reserve balance of $68.3 million 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 found in its entirety at https://www.portofsandiego.org/bpc-policies/2130-bpc-policy-no-117-operating-reserve-policy/file.html.

Five Year Financial Forecast

Each year, the District updates a Five Year Cash Flow Forecast (cash flow) which serves 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 District's Strategic Milestones adopted by the BPC with a focus on achieving the KPI's.

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

- Revenues and other sources exceed expenses before depreciation and amortization and before capital outlays
- The District expenditures authorized in the budget will help stimulate the economy in the San Diego region
- Grow revenues by 3.0% to 5.0% per year
- Manage growth at a disciplined cost structure
- Proactively maintain facilities and infrastructure
- Capital investment in the tidelands will provide significant, long-term economic benefits to the region and provide public improvements and infrastructure that will stimulate private investment in the tidelands diversifying the District's revenue streams 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.

Capital Improvement Program (CIP)

The BPC has adopted Policy No. 120 - Capital Improvement Program (CIP). The CIP includes projects that enhance maritime terminal operations, public parks, and other District facilities or public amenities. Examples of CIP projects include improvements on the District's marine terminals, improved roadways, public boat ramps, security systems, new parks, and environmental mitigation. CIP projects do not include major maintenance. 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 found in its entirety at https://www.portofsandiego.org/bpc-policies/1431-bpc-policy-no-120-capital-improvement-program-cip/file.html.

Major Maintenance Program

The BPC has also adopted Policy No. 130 - Major Maintenance Program (MMP). The MMP establishes a policy for the orderly maintenance of the capital assets of the District. The intent is to improve the District's major maintenance process to streamline project selection and funding processes, and to address the repair, operation, maintenance, and development of District infrastructure and facilities. Projects recommended for major maintenance under the program are primarily identified from the District's Asset Management Program (AMP), which uses a scientifically- based methodology to determine which critical assets require repairs or replacements. Proactive maintenance of our facilities and infrastructure through the AMP supports strong relationships with the District tenants and business partners, while improving public safety. For more information, the policy can be found in its entirety at https://www.portofsandiego.org/bpc-policies/5218-bpc-policy-no-130-major-maintenance-program/file.html.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Port Master Plan Update

The District is conducting an Integrated Planning Initiative that will culminate in an update to the Port Master Plan. The Port Master Plan serves as a blueprint for development, but has never been comprehensively updated since its adoption in 1980, although it has been amended 38 times. The Integrated Planning Initiative launched in 2013, is a multifaceted and comprehensive approach for managing and planning the business of the District in a balanced way. To encourage and ensure extensive community input, the District is conducting a series of Board workshops and open houses. The District's Integrated Planning Initiative has been recognized as innovative, forward thinking, and inclusive, with awards from professional planning, environmental, public affairs, and architectural organizations.

Chula Vista Bayfront

The Chula Vista Bayfront (CVB) project represents one of the last truly significant, large-scale waterfront development opportunities in Southern California. At approximately 535 acres, the CVB project seeks to transform a largely vacant and underutilized industrial landscape into a thriving recreational, residential, and resort destination on the Chula Vista waterfront. It is designed to create new public parks, provide convention and visitor serving amenities, and develop an important asset for the San Diego region, the South Bay, Chula Vista residents, and coastal visitors. When complete, the public will enjoy more than 200 acres of public realm space including parks and open space, a shoreline promenade, walking trails, RV camping, shopping, dining, and more. The investment is estimated at over $1.0 billion.

Harbor Island

The District entered into Exclusive Negotiating Agreements with two developers for the redevelopment of 57 acres of land on the east end of Harbor Island with mixed-use retail, hotels, and open space. The project area is currently occupied by several rental car companies. The anticipated investment is likely to exceed $1.0 billion.

Central Embarcadero

The District is pursuing development of the Central Embarcadero, a prime site of approximately 70 acres of land and water situated between downtown San Diego and the San Diego Bayfront. Its ideal location presents a special opportunity for a defining "centerpiece" development and has tremendous potential to become the signature waterfront destination for San Diego. The large scale mixed use project will include a Sky Spire attraction, multiple hotels, an increase in retail density, improved waterside facilities and open space, and represent an investment of up to $1.2 billion.

Climate Action Plan

As an environmental steward, the District carries out initiatives that reduce impacts on the environment to create and maintain a remarkable way of life. In that effort, in December 2013, the District became one of the first ports in the nation to adopt a Climate Action Plan (CAP) to establish greenhouse gas (GHG) emissions reduction goals. The District aims to reach a GHG reduction of 25% by 2035 by decreasing transportation use, energy conservation and efficiency, alternative energy generation, water conservation, as well as recycling and waste reduction.

Cargo

The Tenth Avenue Marine Terminal (TAMT) Redevelopment Plan is moving forward following the certification of its Environmental Impact Report (EIR). The EIR authorizes and guides the physical and business changes to the terminal to increase its service to the community while protecting the neighborhood environment. The plan and EIR align potential targeted infrastructure improvements to meet cargo market needs. The District was awarded a $10 million Transportation Investment Generating Economic Recovery (TIGER) grant from the U.S. Department of Transportation that will fund the first phase of a 20-year plan, which will demolish antiquated infrastructure, create flexible open space, and enhance rail capability, benefiting current and potential cargo customers. Work under Phase 1, also referred to as the Tenth Avenue Marine Terminal Modernization Plan, is scheduled to commence in late 2017.

Two of the District's major maritime tenants continued to capture business. Dole Fresh Fruit Company had a 21% increase in volume over the previous fiscal year and Pasha Automotive Services continued to import more than 400 thousand vehicles annually.

Additionally, environmental review is currently underway for the National City Balanced Plan (Balanced Plan). In collaboration with the City of National City and key stakeholders, the Balanced Plan proposes to reconfigure the land uses to optimize recreational, maritime, and commercial uses within the marina district and is the result of a public planning process. It also includes a permanent realignment of the Bayshore Bikeway and other commercial projects consistent with the plan.

Cruise

The District was selected as one of the top five cruise destinations in the United States and Canada by passengers in a Cruise Critic survey. Additionally, the District was named “Most Responsive Cruise Port 2016” by Cruise Insight Magazine, based on industry-wide surveys of cruise executives. The District continues its excellent relationships with established partners such as Holland America Line and Princess Cruises, while building new business from Disney Cruise Line and others. This fiscal year, approximately 224 thousand cruise passengers visited San Diego, a 13.1% increase over the previous year. The District has continued investing in cruise terminal improvements to enhance cruise customer experience and operational efficiencies.

Safety

To help maintain homeland security, the District built a new Joint Investigations Building, which now houses both Harbor Police and Coast Guard Criminal Investigations Service personnel. In addition, the BPC approved a new Emergency Operations Plan to govern procedures, communications, and financial management in an emergency. Additionally, the Harbor Police dive team worked with Federal and Philippine maritime law enforcement agencies to strengthen and develop training for underwater searches and disaster incidents in the Philippines. The effort is part of a broader program in which the Harbor Police Department has been recruited by the U.S. Department of State to share best practices with law enforcement agencies for ports and harbors around the world to support foreign port security and fight international crime.

Tidelands recorded a 24.0% reduction in violent crime and a 6.0% reduction in property crime this year. In addition, homeless calls for service decreased by 17.0%, aided by the District’s partnership with the Alpha Project to provide outreach services to homeless people along the waterfront. To address calls for mental illness, Harbor Police integrated a County Psychological Emergency Response Team (PERT) member into the patrol rotation. With help from the Marketing & Communications Department, Harbor Police released a public service video called, “I-Watch My Bay,” which educates the public on suspicious activity relating to terrorism and smuggling.

Blue Economy Incubator

In 2016, the District established the Aquaculture and Blue Technology Program to assist in the creation, early development, and initial scaling of new Blue Economy business ventures along San Diego Bay. With the District’s 50-year history on San Diego Bay and mutually beneficial relationships along the waterfront, it is strategically positioned to build a unique Blue Economy Incubator to support entrepreneurship, foster sustainable aquaculture, and help drive innovation. This fiscal year, the BPC authorized agreements with four incubator projects: the installation of a custom-made system for shellfish aquaculture nursery operations; a technology to remove soluble copper in seawater through an active and passive filtration system; drive-in boat wash technology that takes a new approach for in-water hull cleaning to help reduce copper particulates released into the Bay; and new technology, utilizing a smart phone application, to connect latent mooring space with boaters to optimize marina logistics and improve revenues.

Boat Launch Ramps

With the City of Coronado, the District completed the $1.2 million Glorietta Bay Boat Launch Ramp and Dock C Replacement. This important public access construction project included $670 thousand from the California Department of Boating and Waterways and $470 thousand from the District. The boat launch ramp had been in continuous operation for more than 40 years and was beyond its service life. A new dock, replacing the old dock, can moor 34 boats to meet the current demand, with a new ramp surface for better traction. The new dock also provides space for temporary tie-ups and a low freeboard dock for kayaks, paddleboards, and rowing sculls. The project improvements also include a new sandy beach for launching boats from the shore, a temporary parking area, and a larger and improved boat wash off area.

In addition, the District began construction on the Shelter Island Boat Launch improvement project, which will make the ramp safer and more navigable. The facility is believed to be the busiest boat launch ramp in California, with an estimated 50 thousand launches annually. Constructed in the mid-1950s with a single-lane concrete launch ramp, its last major improvement was completed in the mid-1970s when the existing 10-lane boat launch ramp was constructed. The facility is used by recreational boaters from the general public, including small yachts, inboard and outboard motorboats, private fishing boats, fishing tournament boats, and amphibious tour buses. This improvement project was designed with extensive public outreach and is being made possible by $9.6 million in grant funding from the California Division of Boating and Waterways and the California Wildlife Conservation Board.

Awards Received by the District

- 2017 Lifetime Achievement Award (Chairman Robert "Dukie" Valderrama), Barrio Station
- 2017 National Environmental Excellence Award for Public Involvement (Integrated Planning), National Association of Environmental Professionals
- 2017 Project of the Year (Emergency Wharf Repair), American Public Works Association
- 2017 Project of the Year (Bayside Park Shoreline Stabilization), American Public Works Association
- 2017 Project of the Year (Harbor Police Headquarters Investigation Building Replacement), American Public Works Association
- 2017 Project of the Year (Public Viewing Platform), American Public Works Association
- 2017 Project of the Year (B Street Pier Cruise Ship Terminal Photovoltaic), American Public Works Association
- 2017 Accreditation for Port of San Diego (First Port to become Accredited!), American Public Works Association
- 2017 Honorable Mention in Stakeholder Awareness, Education & Involvement Category of Environmental Improvement Award (Green Business Network), American Association of Port Authorities
- 2017 Achievement of Excellence in Procurement Award (9th consecutive year), Achievement of Excellence in Procurement Program
- 2017 Cruisers' Choice Destination Award - Top Five Cruise Destinations (2nd year in a row), U.S. and Canada, Cruise Critic
- 2017 Outstanding Environmental Analysis EIR/EIS Document for the San Diego Bay and Imperial Beach Oceanfront Fireworks Display Events EIR, San Diego Chapter of the Association of Environmental Professionals

ACKNOWLEDGMENTS

The District was honored to receive, for a third year, the prestigious Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year ending June 30, 2016. 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.

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 Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Letter of Transmittal

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
Randa J. Coniglio
President/CEO

Robert DeAngelis
Robert DeAngelis
CFO/Treasurer

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, 2016.

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.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego Unified Port District
California

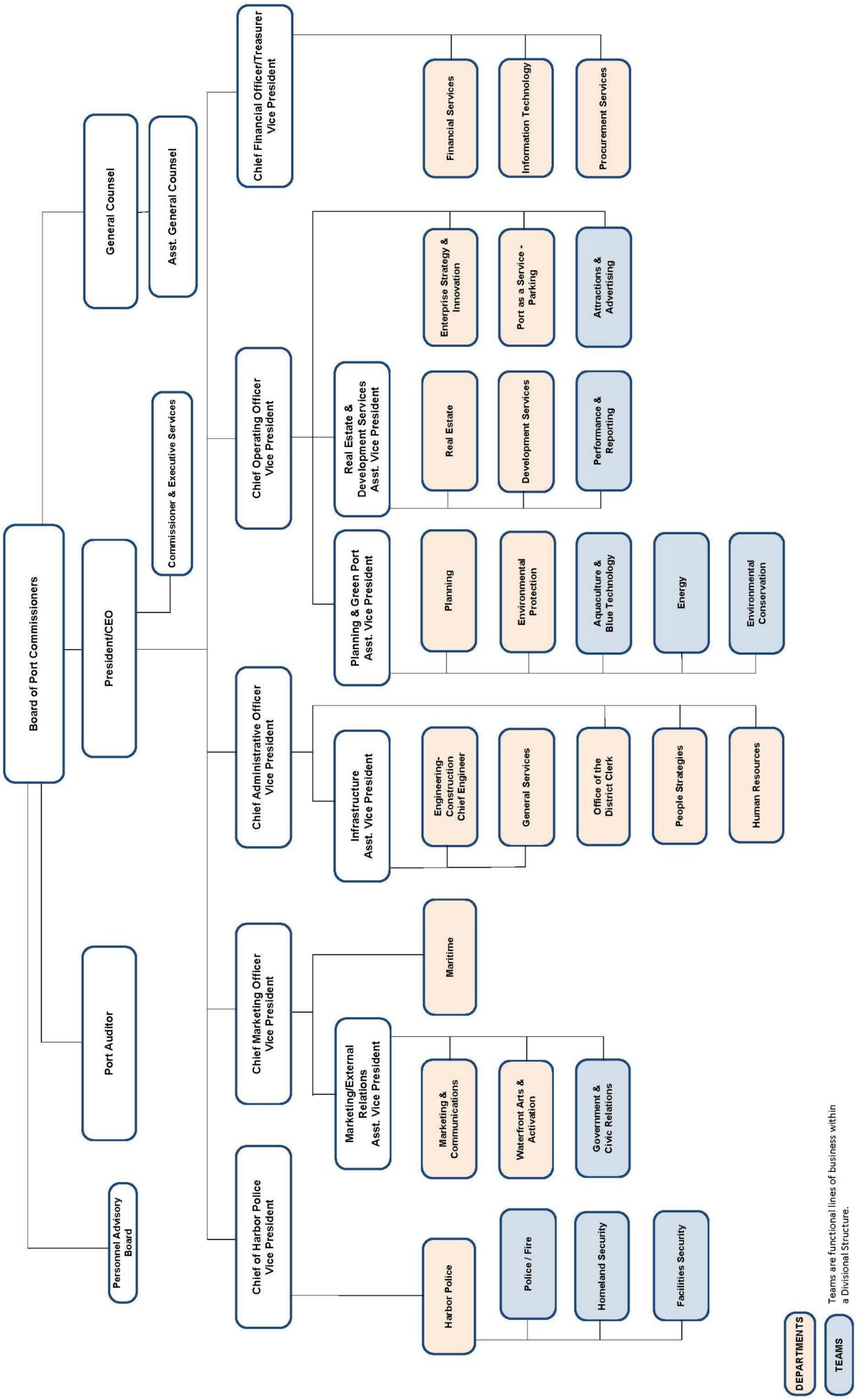
For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Jeffrey R. Emer

Executive Director/CEO

District Organization Chart



Board of Port Commissioners

CHAIRMAN

Robert "Dukie" Valderrama
City of National City

VICE CHAIRMAN

Rafael Castellanos
City of San Diego

SECRETARY

Garry J. Bonelli
City of Coronado

COMMISSIONERS

Ann Moore
City of Chula Vista

Dan Malcolm
City of Imperial Beach

Marshall Merrifield
City of San Diego

Michael Zucchet
City of San Diego

Executive Leadership Group

Members of the Executive Leadership Group as of June 30, 2017:

PRESIDENT/CEO
Randa J. Coniglio

GENERAL COUNSEL
Thomas A. Russell

PORT AUDITOR
Robert Monson

ASSISTANT GENERAL COUNSEL
Ellen F. Gross

CHIEF ADMINISTRATIVE OFFICER
VICE PRESIDENT
Karen G. Porteous

CHIEF FINANCIAL OFFICER/TREASURER
VICE PRESIDENT
Robert DeAngelis

CHIEF OF HARBOR POLICE
VICE PRESIDENT
John Bolduc

CHIEF MARKETING OFFICER
VICE PRESIDENT
Bella Heule

CHIEF OPERATING OFFICER
VICE PRESIDENT
T. Scott Edwards

ASSISTANT VICE PRESIDENT
Cid Tesoro

ASSISTANT VICE PRESIDENT
Jason Giffen

ASSISTANT VICE PRESIDENT
Job Nelson

ASSISTANT VICE PRESIDENT
Shaun D. Sumner

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FINANCIAL SECTION

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Independent Auditors Report

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Certified Public Accountants

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, 2017 and 2016, 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, 2017 and 2016, 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.

Macias Gini & O'Connell LLP
225 Broadway, Suite 1750
San Diego, CA 92101

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Emphasis of Matter

As discussed in Notes 1(p) and Note 13 to the basic financial statements, effective July 1, 2016, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* As a result of the implementation of GASB Statement No. 73, net position as of July 1, 2016, was restated and reduced by $1,746,319. 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 24–37 and the schedule of changes in net pension liability and related ratios, schedule of changes in the preservation of benefits liability and related ratios, schedule of employer pension contributions, and other postemployment benefit plan schedule of funding progress on pages 90–93 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 15, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
November 15, 2017

Management's Discussion and Analysis (Unaudited)

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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, 2017 and June 30, 2016. 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, 2017

- As of June 30, 2017, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $461.3 million.
- Operating revenues for the District were $170.4 million for fiscal year 2017 compared to $160.3 million for fiscal year 2016.
- Operating expenses, including depreciation and amortization, for the District were $188.3 million for fiscal year 2017 compared to $145.9 million for fiscal year 2016, largely due to the accounting adjustment for pension expense per GASB Statement No. 68.
- Nonoperating revenues for the District were $6.0 million for fiscal year 2017 compared to $7.9 million for fiscal year 2016.
- Nonoperating expenses for the District were $4.8 million for fiscal year 2017 compared to $4.0 million for fiscal year 2016.
- Revenues from capital grants and contributions totaled $2.5 million for fiscal year 2017 compared to $1.7 million for fiscal year 2016.
- The District's total net position decreased by $16.1 million (including a $24.7 million increase from an accounting adjustment for pension expense in accordance with GASB Statement No. 68 and a restatement of $1.7 million for GASB Statement No. 73) during fiscal year 2017 compared to a $20.0 million increase in fiscal year 2016.

Financial Highlights – year ended June 30, 2016

- As of June 30, 2016, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $477.4 million.
- Operating revenues for the District were $160.3 million for fiscal year 2016 compared to $149.6 million for fiscal year 2015.
- Operating expenses, including depreciation and amortization, for the District were $145.9 million for fiscal year 2016 compared to $139.3 million for fiscal year 2015.
- Nonoperating revenues for the District were $7.9 million for fiscal year 2016 compared to $9.6 million for fiscal year 2015.
- Nonoperating expenses for the District were $4.0 million for fiscal year 2016 compared to $15.5 million for fiscal year 2015.
- Revenues from capital grants and contributions totaled $1.7 million for fiscal year 2016 compared to $4.8 million for fiscal year 2015.
- The District's total net position increased by $20.0 million during fiscal year 2016 compared to a $9.1 million increase in fiscal year 2015.

Overview of the Basic Financial Statements

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

Basic Financial Statements

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

The *Statements of Net Position* present all of the District's assets, 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 two 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 $461.3 million at the end of fiscal year 2017, compared to $477.4 million at the end of fiscal year 2016 and $457.4 million at the end of fiscal year 2015. Excluding GASB restatements, the largest portion of the District's net position in fiscal year 2017, 92.2%, is its net investment in capital assets compared to 89.9% in fiscal year 2016, and 93.8% in fiscal year 2015.

The District's financial position at June 30, 2017, 2016, and 2015 is summarized as follows:

Condensed Statements of Net Position
(Expressed in thousands)

	2017	2016	2015
Current assets	$ 147,026	$ 136,421	$ 137,787
Other noncurrent assets	23,265	20,214	18,338
Capital assets	541,460	546,668	547,886
Total Assets	711,751	703,303	704,011
Deferred outflows of resources	49,704	20,124	16,950
Total assets and deferred outflows of resources	$ 761,455	$ 723,427	$ 720,961
Current liabilities	$ 39,300	$ 34,826	$ 47,727
Noncurrent liabilities	259,717	204,511	191,253
Total liabilities	299,017	239,337	238,980
Deferred inflows of resources	1,122	6,721	24,590
Net investments in capital assets	502,478	504,229	507,624
Restricted	8,326	7,357	4,787
Unrestricted	(49,488)	(34,217)	(55,020)
Total net position	461,316	477,369	457,391
Total liabilities, deferred inflows of resources, and net position	$ 761,455	$ 723,427	$ 720,961

As of June 30, 2017, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $461.3 million compared to $477.4 million as of June 30, 2016 and $457.4 million as of June 30, 2015. 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 were $(49.5) million as of June 30, 2017, $(34.2) million as of June 30, 2016, and $(55.0) million as of June 30, 2015. The negative unrestricted balances reported at June 30, 2017, June 30, 2016, and June 30, 2015 were primarily due to the implementation of GASB 68. Refer to Note 11(a)(i) for additional information on the District's Capital Improvement Program (CIP) commitments.

Capital Assets

The District's net book value was $541.5 million as of June 30, 2017, $546.7 million as of June 30, 2016, and $547.9 million as of June 30, 2015. The funds used for capital improvements are derived from several sources, including the District's unrestricted funds, federal and state grants, capital contributions from external sources, long-term debt, and current revenue sources.

Capital Assets
(Expressed in thousands)

Description	June 30, 2017	June 30, 2016	June 30, 2015
Nondepreciable assets:			
Land	$ 246,694	$ 246,689	$ 239,275
Construction-in-progress	22,962	14,277	22,441
Depreciable/amortizable assets:			
Land improvements	7,650	7,650	7,650
Buildings and structures	578,750	577,028	564,204
Machinery and equipment	95,467	88,316	86,482
Roads and parking lots	120,803	120,647	114,592
Intangible	3,778	3,563	2,377
Total assets	1,076,104	1,058,170	1,037,021
Accumulated depreciation/amortization	(534,644)	(511,502)	(489,135)
Capital assets, net	$ 541,460	$ 546,668	$ 547,886

Capital Assets – Fiscal year 2017 compared to 2016:

The District invested a total of $14.5 million in construction-in-progress during fiscal year 2017 (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 2017 for some of the major capital projects:

$5.2 million, National City Marine Terminal (NCMT) Berth Structural and Mooring
$1.3 million, Port Security Grants Projects
$1.1 million, Shelter Island Boat Launch Facility Improvements
$1.1 million, Tenth Avenue Marine Terminal (TAMT) Transit Shed 1 Phase II Demolition
$759 thousand, Chula Vista Bayfront Master Plan Pre-Design
$743 thousand, 2017 Emergency Storm Improvements
$578 thousand, B Street Pier - Escalator Installation
$472 thousand, Enhanced Planned Maintenance
$403 thousand, Playground Structures & American Disability Act (ADA) Ramp Repairs
$279 thousand, Technology Management Program - Compellant Storage Area Network (SAN) Upgrade
$225 thousand, Technology Strategic Plan - Disaster Recovery Mirrored Site
$204 thousand, Grape Street Replacement and Repairs
$172 thousand, Cesar Chavez Park Lighting
$157 thousand, Administration Building Interior Demolition
$154 thousand, TAMT Storage Tank Repairs
$137 thousand, America's Cup Harbor Improvements - Phase I, North Harbor Drive
$137 thousand, Regional Fiber Optic Infrastructure - Phase 4A
$129 thousand, TAMT Berths 10-7 and 1 Pavement Repairs
$128 thousand, Navy Pier Structural Repairs
$1.1 million, all other capital projects

Capital Assets – Fiscal year 2016 compared to 2015:

The District invested a total of $19.8 million in construction-in-progress during fiscal year 2016 (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 2016 for some of the major capital projects:

$2.6 million, NCMT Berth Structural and Mooring Repair
$1.9 million, Port Security Grants Projects
$1.6 million, Administration Building Elevator Repairs
$1.6 million, National City Aquatic Center
$1.3 million, America's Cup Harbor Improvements – Phase I, North Harbor Drive Realignment
$1.2 million, B Street Pier – West End Fender Upgrade
$885 thousand, Harbor Police Headquarters Investigations Building Replacement
$874 thousand, Asset Management Program
$861 thousand, Chula Vista Bayfront Master Plan Pre-Design
$663 thousand, Public Viewing Platform (Sunset Point at the Port)
$610 thousand, TAMT Berths 10-1 and 10-2 Fender System Upgrade
$519 thousand, Shelter Island Fishing Pier Boat Dock Replacement
$434 thousand, B Street Pier – Cruise Ship Terminal Photovoltaic Installation
$431 thousand, North Embarcadero Visionary Plan (NEVP) Phase I
$387 thousand, TAMT Transit Shed 1 Phase II Demolition
$376 thousand, Shoreline Stabilization at Bayside Park
$370 thousand, Light Emitting Diode (LED) Lighting Retrofit Project FY 15/16
$317 thousand, SAP Enhancements
$310 thousand, Shelter Island Boat Launch Facility Improvements
$2.6 million, all other capital projects

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, 2017, 2016, and 2015 are presented below:

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

	2017	2016	2015
Operating revenues:			
Real Estate operations	$ 96,430	$ 102,747	$ 95,940
Port as a Service	15,227	—	—
Maritime operations	39,214	37,365	35,265
Harbor Police	16,085	16,835	14,729
Other operating revenues	3,409	3,340	3,631
Total operating revenues	170,365	160,287	149,565
Operating expenses:			
Direct expenses			
Real Estate operations	26,400	27,623	27,782
Port as a Service	6,184	—	—
Maritime operations	17,208	18,334	18,002
Harbor Police	39,201	35,007	31,081
Other operating expenses	35,858	8,267	9,685
Depreciation and amortization	23,447	22,721	21,218
General and administrative expenses	40,040	33,949	31,561
Total operating expenses	188,338	145,901	139,329
Income/(loss) from operations	(17,973)	14,386	10,236
Nonoperating revenues	5,968	7,889	9,615
Nonoperating expenses	4,760	3,960	15,522
Nonoperating income/(loss)	1,208	3,929	(5,907)
Capital grants and contributions	2,458	1,663	4,781
Change in net position	(14,307)	19,978	9,110
Beginning net position	477,369	457,391	532,013
Restatement - GASB 68	—	—	(83,732)
Restatement - GASB 73	(1,746)	—	—
Ending net position	$ 461,316	$ 477,369	$ 457,391

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.

The District's operating expenses consist primarily of personnel expenses, 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 revenues, 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 2017 compared to 2016:

(Expressed in thousands)	2017	2016	$ Change Increase (Decrease)	% Change
Real Estate operations	$ 96,430	$ 102,747	$ (6,317)	(6.1)%
Port as a Service	15,227	—	15,227	-
Maritime operations	39,214	37,365	1,849	4.9 %
Harbor Police	16,085	16,835	(750)	(4.5)%
Other operating revenues	3,409	3,340	69	2.1 %
Total operating revenues	$ 170,365	$ 160,287	$ 10,078	6.3 %

- Real Estate operating revenue of $96.4 million decreased $6.3 million from $102.7 million. The decrease was mainly due to parking and parking meter revenue of $11.9 million being transferred to the newly created Port as a Service profit center. Fixed rent decreased $1.7 million mainly due to a reduction in lease revenue from car rental tenants and other rental revenue decreased by $1.5 million due to a right of entry payment received in the prior fiscal year. The decrease was partially offset by an increase in concession revenue of $8.5 million mainly due to stronger performance by tidelands hotels, restaurants, and other visitor-serving businesses. The remaining variance was from all other operating revenue sources.

- Port as a Service is a new profit center with operating revenue of $15.2 million previously reported in Real Estate, Harbor Police, and Maritime. Port as a Service was established to manage revenue generation from parking and to explore new revenue sources from advertising and business opportunities.

- Maritime operating revenues of $39.2 million increased by $1.8 million from $37.4 million. Fixed rent revenue increased by $2.1 million mainly due to a retroactive rent increase payment from an industrial tenant. Storage space rental revenue increased by $771 thousand primarily due to an increase in the number of storage days from automobile operations at NCMT. The increases were partially offset by decreases in wharfage revenue of $659 thousand due to seasonal dip in automobile throughput. Additionally, parking revenue decreased by $393 thousand due to parking revenue transferred to the Port as a Service profit center.

- Harbor Police operating revenues of $16.1 million decreased $750 thousand from $16.8 million primarily from parking citations revenue that was transferred to the Port as a Service profit center.

- Other operating revenues of $3.4 million increased by $69 thousand from $3.3 million. The increase was primarily due to higher SDG&E Partnership reimbursement.

Operating Revenues – Fiscal year 2016 compared to 2015:

(Expressed in thousands)	2016	2015	$ Change Increase (Decrease)	% Change
Real Estate operations	$ 102,747	$ 95,940	$ 6,807	7.1 %
Maritime operations	37,365	35,265	2,100	6.0 %
Harbor Police	16,835	14,729	2,106	14.3 %
Other operating revenues	3,340	3,631	(291)	(8.0)%
Total operating revenues	$ 160,287	$ 149,565	$ 10,722	7.2 %

- Real Estate operating revenues of $102.7 million increased $6.8 million from $95.9 million. Concession revenue increased $6.1 million mainly due to stronger performance by tidelands hotels, restaurants, and other visitor-serving businesses and a tenant rent credit ending January 2016. Other rental revenue increased $1.2 million mainly due to a right of entry and option payments received. Parking and parking meter revenue increased $839 thousand due to an increase in parking rates, an increase in visitors, and installation of additional smart meters along the tidelands. The increases were partially offset by a decrease in fixed rent revenue of $1.4 million mainly due to an industrial tenant lease ending in the prior fiscal year. The remaining variance was from all other operating revenue sources.

- Maritime operating revenues of $37.4 million increased by $2.1 million from $35.3 million. Storage space rental revenue increased by $963 thousand primarily due to an increase in the number of storage days from automobile operations at NCMT. Other rental revenue increased by $336 thousand due to an increase in event rental at the Port Pavilion and a one - time payment from a tenant as consideration for a conditional agreement to lease at TAMT. Dockage revenue increased by $310 thousand due to an increase of cargo operations at TAMT and NCMT. Parking revenue increased by $214 thousand from the B Street Pier public parking lot. The remaining variance was from all other operating revenue sources.

- Harbor Police operating revenues of $16.8 million increased $2.1 million from $14.7 million primarily from an additional billing adjustment resulting from the audited true up of the prior year's actual police costs provided to the airport versus the estimated standard rates.

- Other operating revenues decreased $291 thousand from lower SDG&E Partnership reimbursements due to delays in the contract execution.

Operating Expenses - Fiscal year 2017 compared to 2016:

(Expressed in thousands)	2017	2016	$ Change Increase (Decrease)	% Change
Direct expenses				
Real Estate operations	$ 26,400	$ 27,623	$ (1,223)	(4.4)%
Port as a Service	6,184	—	6,184	-
Maritime operations	17,208	18,334	(1,126)	(6.1)%
Harbor Police	39,201	35,007	4,194	12.0 %
Other operating expenses	35,858	8,267	27,591	333.7 %
Depreciation and amortization	23,447	22,721	726	3.2 %
General and administrative expenses	40,040	33,949	6,091	17.9 %
Total operating expenses	$ 188,338	$ 145,901	$ 42,437	29.1 %

- Real Estate operating expenses of $26.4 million, before depreciation and G&A expense, decreased $1.2 million from the prior fiscal year mainly due to the transfer of operational expenses for parking facilities to the new Port as a Service profit center. The decrease was partially offset by an increase in various environmental efforts, a rise in various marketing projects, and increased pavement maintenance at various locations.

- Port as a Service is a new profit center with operating expenses of $6.2 million. Expenses include personnel, facility management services, bank and credit card fees, professional services, space rental, and allocated costs.

- Maritime operating expenses of $17.2 million, before depreciation and G&A expenses, decreased $1.1 million from $18.3 million. The decrease was primarily due to lower environmental review services, consulting services for the National City Marina District Balanced Land Use Plan project, crane maintenance, hazardous waste cleanup, and fire system five year certification inspection costs.

- Harbor Police operating expenses of $39.2 million, before depreciation and G&A expenses, increased $4.2 million from $35.0 million. Approximately $2.6 million of the increase was from staffing, overtime, retirement expense, workers compensation, and negotiated annual salary increases.

- Other operating expenses of $35.9 million, before depreciation and G&A expenses, increased $27.6 million from $8.3 million. This was primarily due to an increase of $24.7 million from an accounting adjustment for pension expense per GASB Statement No.68 largely driven by mortality assumption changes (members living longer than expected), and from an increase in Other Post Employment Benefits (OPEB) expenses of $485 thousand.

- Total depreciation and amortization expenses of $23.4 million increased $726 thousand from $22.7 million.

- G&A expenses of $40.0 million increased $6.1 million from $33.9 million mainly due to a full year of implementation of the new organizational structure, which included the addition of full-time positions and establishment of the new departments.

Operating Expenses - Fiscal year 2016 compared to 2015:

(Expressed in thousands)	2016	2015	$ Change Increase (Decrease)	% Change
Direct expenses				
Real Estate operations	$ 27,623	$ 27,782	$ (159)	(0.6)%
Maritime operations	18,334	18,002	332	1.8 %
Harbor Police	35,007	31,081	3,926	12.6 %
Other operating expenses	8,267	9,685	(1,418)	(14.6)%
Depreciation and amortization	22,721	21,218	1,503	7.1 %
General and administrative expenses	33,949	31,561	2,388	7.6 %
Total operating expenses	$ 145,901	$ 139,329	$ 6,572	4.7 %

- Real Estate operating expenses of $27.6 million, before depreciation and G&A expenses, decreased $159 thousand primarily due to a decrease in legal contingencies of approximately $2.2 million and the prior year completion of the Americans with Disabilities Act (ADA) improvements at various locations along the tidelands of $559 thousand. The decrease was partially offset by increases in the following: a change in the recording of the GASB 68 and OPEB accounting adjustment of $1.1 million, reimbursement of tenant improvements of $460 thousand, a rise in facility management service fees of $219 thousand which is based on parking revenues collected, and an increase of $216 thousand in consulting fees to develop and manage new business opportunities for revenue optimization. The remaining variance was from all other operating expense sources.

- Maritime operating expenses of $18.3 million, before depreciation and G&A expenses, increased $332 thousand from $18.0 million. The increase was primarily due to $141 thousand consulting fees for the National City Marina District Balanced Land Use Plan project and $125 thousand related to TAMT stormwater, legal, and fire system maintenance costs.

- Harbor Police operating expenses of $35.0 million before depreciation and G&A expenses, increased $3.9 million from $31.1 million. A change in the recording of GASB 68 and OPEB accrual resulted in a $2.2 million increase, while workers' compensation increased by $1.4 million, and retirement expense increased by $449 thousand. The remaining variance was from all other operating sources.

- Other operating expenses of $8.3 million, before depreciation and G&A expenses, decreased $1.4 million from $9.7 million. The decrease was mainly due to the prior year's legal contingency costs of $983 thousand and changes in accounting for GASB 68 and the OPEB accrual.

- Total depreciation and amortization expenses of $22.7 million increased $1.5 million from $21.2 million due to depreciation for newly completed capital projects, the largest being America's Cup Harbor Phase I - North Harbor Drive Realignment.

- G&A expenses of $33.9 million increased $2.4 million from $31.6 million mainly due to an increase in salaries and wages of $1.2 million as a result of a new organizational structure that was implemented, including the mid-year addition of full-time positions. Also contributing to the increase were additional software and equipment maintenance costs of $798 thousand and accounting adjustments of $465 thousand for GASB 68 and OPEB. The remaining variance was from all other expense sources.

Nonoperating Revenues, Expenses, and Capital Grants and Contributions - Fiscal year 2017 compared to 2016:

(Expressed in thousands)	2017	2016	$ Change Increase (Decrease)	% Change
Nonoperating revenues	$ 5,968	$ 7,889	$ (1,921)	(24.4)%
Nonoperating expenses	$ 4,760	$ 3,960	$ 800	20.2 %
Capital grants and contributions	$ 2,458	$ 1,663	$ 795	47.8 %

- The District's nonoperating revenues of $6.0 million, excluding capital grants and contributions, decreased $1.9 million from $7.9 million. The decrease was primarily due to the accounting for the gain of $3.1 million from the land exchange transaction which was recognized in the prior fiscal year. This was partially offset by increases in various nonoperating revenues including legal settlements, investment interest, reimbursed legal fees, and miscellaneous other nonoperating revenue.

- Nonoperating expenses of $4.8 million increased $800 thousand from $4.0 million. The increase was mainly due to financial assistance for the Glorietta Bay boat launch ramp improvements of $463 thousand and reclassification of previously capitalized projects of $386 thousand. The remaining variance was from all other nonoperating expense sources.

- Capital grants and contributions of $2.5 million increased $795 thousand from $1.7 million. The increase was primarily due to contributions received for the Coronado Bridge Lighting project of $400 thousand and grants reimbursement of $344 thousand.

Nonoperating Revenues, Expenses, and Capital Grants and Contributions - Fiscal year 2016 compared to 2015:

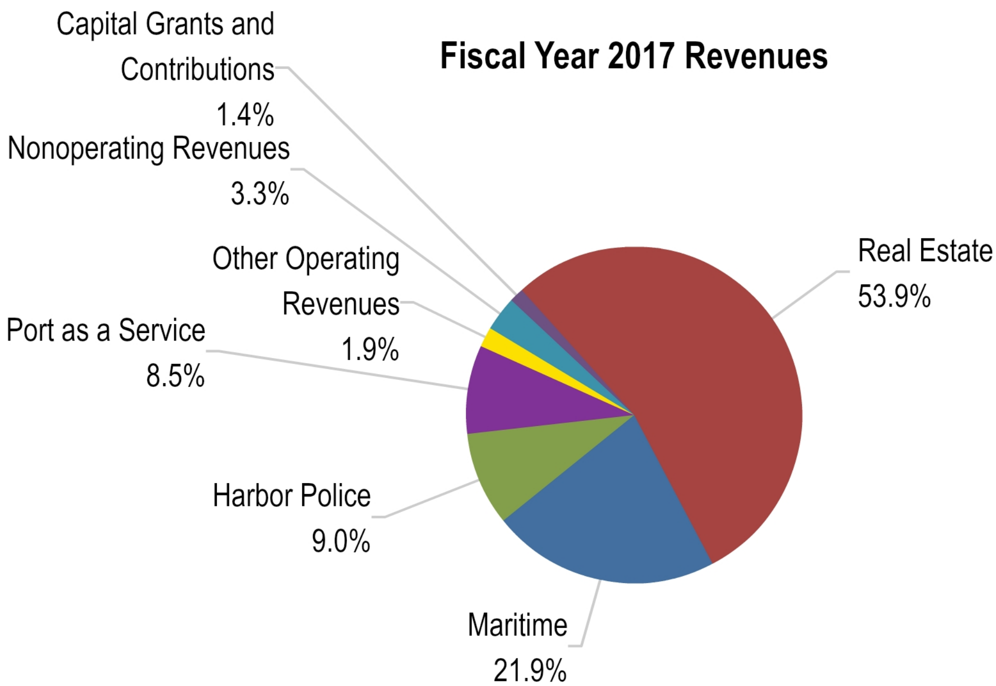
(Expressed in thousands)	2016	2015	$ Change Increase (Decrease)	% Change
Nonoperating revenues	$ 7,889	$ 9,615	$ (1,726)	(18.0)%
Nonoperating expenses	$ 3,960	$ 15,522	$ (11,562)	(74.5)%
Capital grants and contributions	$ 1,663	$ 4,781	$ (3,118)	(65.2)%

- The District's nonoperating revenues of $7.9 million, excluding capital grants and contributions, decreased $1.7 million from $9.6 million mainly from accounting for the gain from land exchange transactions that occurred in each year.

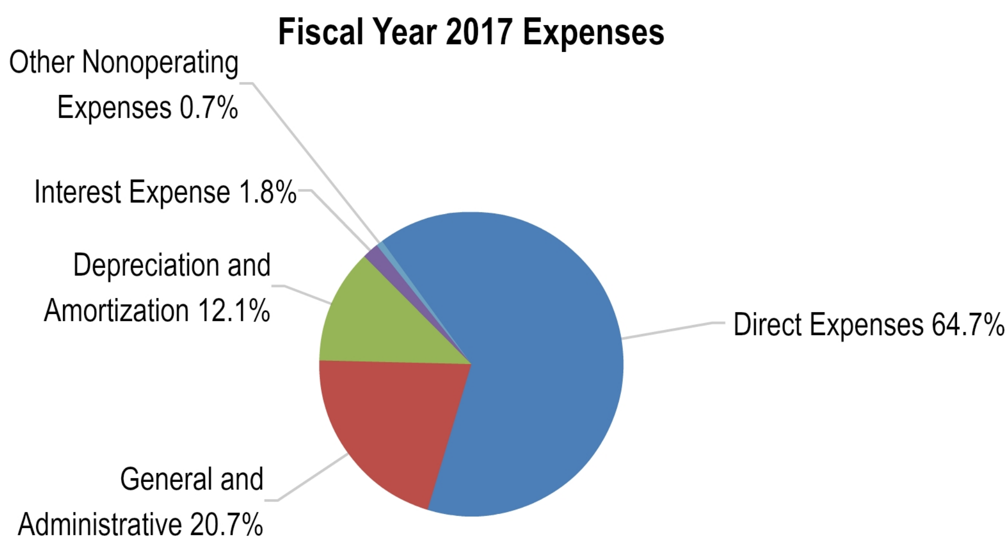
- Total nonoperating expenses of $4.0 million decreased $11.6 million from $15.5 million. The decrease is due to higher prior year expenses for legal settlements of $9.4 million, write-offs of previously capitalized projects of $1.9 million, and interest expense of $204 thousand. The remaining variance was from all other nonoperating expense sources.

- Capital grants and contributions of $1.7 million decreased $3.1 million from $4.8 million. This was primarily due to a reduction of capital contributions of $3.1 million from Civic San Diego for costs incurred for the NEVP Phase I project as the project was completed in the prior fiscal year. Please refer to Note 4(b) for additional information on funding for the NEVP Phase I project.

The following charts show the total District revenues and expenses as percentages by major categories for fiscal year 2017:



Total Revenues	**$178,792,142**



Total Expenses	**$193,099,483**

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).

On April 9, 2007, the District, the City of San Diego and Centre City Development Corporation, now known as Civic San Diego (CSD) signed an agreement to design and fund phases of the New Embarcadero Visionary Plan (NEVP) Phase I. Under the terms of the agreement and subsequent amendments, the District records its 50% share of costs as a loan advance from CSD. The District is required to pay the greater of $850 thousand or 50% of Lane Field revenue annually as repayment of the loan advance, and in fiscal year 2014, the District made the first payment of $850 thousand. The District and CSD also agreed to share the cost of future maintenance and security expenses upon completion of NEVP Phase I and Setback Park/Plaza. In fiscal years 2015 and 2016, under the terms of the agreements, the District and CSD agreed that CSD's 50% share of the estimated maintenance and security costs totaling $7.8 million be offset against the loan advance by $4.4 million and $3.5 million, respectively.

Following is a summary of the District's outstanding notes and bonds payable as of June 30, 2017 and June 30, 2016, respectively:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017	Amounts Due Within One Year
Notes:					
SDCRAA promissory note	$ 36,749,270	$ —	$ (1,705,491)	$ 35,043,779	$ 1,801,694
Civic San Diego loan advance - NEVP	3,594,532	—	(685,602)	2,908,930	718,071
Revenue bonds:					
Series A 2004 bonds payable	7,695,000	—	(1,795,000)	5,900,000	1,880,000
Series A 2004 bonds premium	144,832	—	(43,022)	101,810	—
Series A 2013 bonds payable	25,205,000	—	—	25,205,000	—
Series A 2013 bonds premium	2,108,539	—	(248,652)	1,859,887	—
Total notes and bonds	$ 75,497,173	$ —	$ (4,477,767)	$ 71,019,406	$ 4,399,765

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016	Amounts Due Within One Year
Notes:					
SDCRAA promissory note	$ 38,358,256	$ —	$ (1,608,986)	$ 36,749,270	$ 1,705,491
Civic San Diego loan advance - NEVP	7,674,518	—	(4,079,986)	3,594,532	685,601
Revenue bonds:					
Series A 2004 bonds payable	9,420,000	—	(1,725,000)	7,695,000	1,795,000
Series A 2004 bonds premium	181,675	—	(36,843)	144,832	—
Series A 2013 bonds payable	25,205,000	—	—	25,205,000	—
Series A 2013 bonds premium	2,349,590	—	(241,051)	2,108,539	—
Total notes and bonds	$ 83,189,039	$ —	$ (7,691,866)	$ 75,497,173	$ 4,186,092

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.

Basic Financial Statements

SAN DIEGO UNIFIED PORT DISTRICT

Statements of Net Position

June 30, 2017 and June 30, 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 43,851,046	$ 50,231,949
Investments	84,630,508	67,033,049
Accounts receivable, net of allowance	17,058,630	17,560,338
Other current assets	1,486,137	1,595,216
Total current assets	147,026,321	136,420,552
Noncurrent assets:		
Restricted assets:		
Restricted cash and investments:		
Deposits and other miscellaneous	11,390,222	10,182,596
Escrow accounts:		
South Bay Power Plant remediation and other miscellaneous	1,362,629	1,361,139
Workers' compensation collateral	3,316,297	2,804,902
Series 2004 and 2013 Bonds:		
Debt service reserve funds held by trustee	3,377,517	3,377,926
Total restricted assets	19,446,665	17,726,563
Other noncurrent assets:		
Cash and investments designated for specific capital projects and commitments	2,178,874	841,090
Other noncurrent assets	1,638,756	1,646,423
Total other noncurrent assets	3,817,630	2,487,513
Capital assets:		
Nondepreciable assets:		
Land	246,693,697	246,688,798
Construction-in-progress	22,962,190	14,276,823
Depreciable assets:		
Land improvements	7,650,334	7,650,334
Building and structures	578,750,099	577,027,746
Machinery and equipment	95,466,648	88,315,656
Roads and parking lots	120,802,496	120,646,645
Intangible assets	3,779,151	3,563,633
Total capital assets	1,076,104,615	1,058,169,635
Less accumulated depreciation and amortization	(534,643,890)	(511,501,985)
Capital assets, net	541,460,725	546,667,650
Total noncurrent assets	564,725,020	566,881,726
Total assets	711,751,341	703,302,278
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on bond refunding	145,643	157,696
Deferred outflows - pension contributions made subsequent to the measurement date	14,600,000	16,918,957
Deferred outflows - difference between actual and expected experience, assumption changes, and net difference between projected and actual earnings on plan investments	34,549,564	3,048,224
Deferred outflows - POB contributions made subsequent to the measurement date and impact from assumption changes	408,303	—
Total deferred outflows	49,703,510	20,124,877
Total assets and deferred outflows of resources	$ 761,454,851	$ 723,427,155

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Net Position
June 30, 2017 and June 30, 2016

	2017	2016
LIABILITIES		
Current liabilities:		
Accounts payable	$ 19,469,276	$ 14,997,550
Accrued liabilities	7,748,565	7,907,116
Current portion of accrued leave	4,985,282	4,593,502
Deposits and other short-term liabilities	2,181,862	2,602,227
Accrued interest payable, Series 2004 and 2013 Bonds	515,546	539,479
Notes payable, current portion	2,519,765	2,391,092
Bonds payable, current portion	1,880,000	1,795,000
Total current liabilities	39,300,296	34,825,966
Noncurrent liabilities:		
Liabilities - payable from restricted assets:		
South Bay Power Plant remediation and Lane Field Mitigation	4,062,629	4,061,139
Other long-term liabilities:		
Notes payable to SDCRAA, net of current portion	33,242,085	35,043,779
Bonds payable, net of current portion	31,186,697	33,358,371
Unearned revenue	6,960,039	7,274,746
Civic San Diego loan advance - NEVP, net of current portion	2,190,859	2,908,931
Other long-term liabilities	288,625	32,409
Accrued leave, net of current portion	1,488,412	1,293,526
Net OPEB obligation	45,533,321	39,946,115
Net pension liability - GASB 68	132,639,262	80,591,608
Net POB liability - GASB 73	2,125,159	—
Total other long-term liabilities	255,654,459	200,449,485
Total noncurrent liabilities	259,717,088	204,510,624
Total liabilities	299,017,384	239,336,590
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - net difference between projected and actual earnings on pension investments and net difference between actual and expected experience	1,121,737	6,721,175
Total liabilities and deferred inflows of resources	300,139,121	246,057,765
NET POSITION		
Net investment in capital assets	502,477,653	504,229,416
Restricted for other projects and grants	8,325,624	7,357,368
Unrestricted	(49,487,547)	(34,217,394)
Total net position	461,315,730	477,369,390
Total liabilities, deferred inflows of resources, and net position	$ 761,454,851	$ 723,427,155

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, 2017 and June 30, 2016

	2017	2016
Operating revenues:		
Real Estate operations	$ 96,430,104	$ 102,746,982
Port as a Service	15,226,785	—
Maritime operations	39,214,404	37,365,254
Harbor Police	16,085,476	16,834,920
Other operating revenues	3,409,062	3,340,521
Total operating revenues	170,365,831	160,287,677
Operating expenses:		
Direct expenses:		
Real Estate operations	26,400,376	27,623,213
Port as a Service	6,184,253	—
Maritime operations	17,208,175	18,334,341
Harbor Police	39,200,868	35,007,326
Other operating expenses	35,858,311	8,266,688
Depreciation and amortization	23,447,360	22,721,000
General and administrative expenses	40,039,794	33,948,676
Total operating expenses	188,339,137	145,901,244
Income/(loss) from operations	(17,973,306)	14,386,433
Nonoperating revenues (expenses):		
Interest income	1,345,670	758,904
Settlement income	1,924,795	1,424,560
Net increase (decrease) in the fair value of investments	(389,332)	92,005
Interest expense	(3,398,581)	(3,517,592)
Financial assistance other	(578,853)	(9,498)
Other nonoperating expenses	(782,911)	(433,128)
Other nonoperating revenues	3,087,566	5,614,647
Nonoperating revenues (expenses), net	1,208,354	3,929,898
Income/(loss) before capital contributions	(16,764,952)	18,316,331
Capital grants and contributions	2,457,611	1,662,506
Change in net position	(14,307,341)	19,978,837
Net position, beginning of year, as previously reported	477,369,390	457,390,553
Cumulative effect of change in accounting principle	(1,746,319)	—
Net position, beginning of year, as restated	475,623,071	—
Net position, end of year	$ 461,315,730	$ 477,369,390

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Cash Flow
Fiscal Years Ended June 30, 2017 and June 30, 2016

	2017	2016
Cash flows from operating activities:		
Payments from customers	$ 170,447,175	$ 157,155,900
Payments to suppliers	(54,976,768)	(58,889,086)
Payments to employees	(83,407,505)	(78,196,193)
Other receipts	3,668,213	1,940,393
Net cash provided by operating activities	35,731,115	22,011,014
Cash flows from noncapital financing activities:		
Maintenance Fund - Salute to Bob Hope	(10,646)	(8,167)
Lane Field Mitigation	—	3,000,000
Financial assistance to other governments	(578,853)	(9,498)
Note payments	(2,391,092)	(2,212,017)
Net cash provided by (used in) noncapital financing activities	(2,980,591)	770,318
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(16,879,554)	(22,712,689)
Proceeds on sale of capital assets	57,508	3,078,003
Federal/state grants received	1,991,679	1,615,558
Contributions for capital assets	465,932	46,948
Payment of bond principal	(1,795,000)	(1,725,000)
Interest paid	(3,785,869)	(3,987,499)
Net cash used in capital and related financing activities	(19,945,304)	(23,684,679)
Cash flows from investing activities:		
Purchase of short-term investments	(77,556,799)	(62,546,630)
Maturity of short-term investments	57,413,929	56,148,986
Interest received from investment securities	956,747	851,670
Net cash used in investing activities	(19,186,123)	(5,545,974)
Net decrease in cash and cash equivalents	(6,380,903)	(6,449,321)
Cash and cash equivalents, beginning of year	50,231,949	56,681,270
Cash and cash equivalents, end of year	$ 43,851,046	$ 50,231,949

See accompanying notes to the basic financial statements.

(Continued)

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Cash Flow
Fiscal Years Ended June 30, 2017 and June 30, 2016

	2017	2016
Reconciliation of operating income/(loss) to net cash provided by operating activities:		
Income/(loss) from operations	$ (17,973,306)	$ 14,386,433
Adjustments to reconcile income/(loss) from operations to net cash provided by operating activities:		
Depreciation and amortization expenses	23,447,360	22,721,000
Settlement income	1,924,795	1,424,560
Other nonoperating activities	2,254,813	516,183
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable	501,708	(2,257,454)
Other current assets	109,079	(34,342)
Deferred outflows of resources	(29,578,633)	(3,175,015)
Accounts payable	3,110,844	(1,965,859)
Accrued liabilities	257,064	(9,739,450)
Other restricted assets	(511,395)	(351)
Other long-term liabilities	58,208,585	18,878,797
Deposits and other short-term liabilities	(420,363)	(874,324)
Deferred inflows of resources	(5,599,436)	(17,869,164)
Net cash provided by operating activities	$ 35,731,115	$ 22,011,014

Supplemental disclosure of noncash investing, capital, and financing activities:	2017	2016
Additions to capital assets included in accounts payable	$ 577,873	$ —
Net increase (decrease) in the fair value of investments	$ (389,332)	$ 92,005
Gain on disposal of assets - land exchange	$ —	$ 61,004
Capital project write-offs - prior year costs	$ (735,433)	$ (348,823)
Reduction of NEVP maintenance credit (Civic San Diego loan)	$ —	$ (3,476,955)
Bond issue premium 2013 Series A (amortization)	$ 248,652	$ 241,051
Bond issue premium 2004 Series A (amortization)	$ 43,022	$ 36,843

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

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(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 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 MOU dated as of December 31, 2002, the District transferred all airport operations and certain related assets and liabilities to 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 $0 as of June 30, 2017 and $11 thousand as of June 30, 2016. 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.

(f) Designated Assets

The BPC may designate funds, which they do not consider to be available for general operations. At June 30, 2017, the District has designated funds primarily for the unpaid contractual portion of some capital projects that are currently in progress totaling $2.2 million compared to $841 thousand on June 30, 2016. 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 funded from existing cash resources total $26.6 million excluding projects funded by grants, donations, and contributions (see Note 11 (a) i) compared to $12.6 million in fiscal year 2016. The $26.6 million excludes $7.1 million of matching funds to complete the Tenth Avenue Marine Terminal (TAMT) Modernization Project partially funded by the Department of Transportation Maritime Administration's Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant program.

- Commitments for other specific projects and activities (non-CIP) totaling $11.1 million compared to $10.4 million in fiscal year 2016.

- 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

(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 of June 30, 2017 and 2016:

Years of Active Service	Annual Accrued Hours (days)	Maximum Accrued Hours (days)
0-5th	144 hours (18 days)	432 hours (54 days)
6-10th	184 hours (23 days)	552 hours (69 days)
11-15th	224 hours (28 days)	552 hours (69 days)
16th-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 revenues, 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 revenues are generally derived from flat-fee ground rentals, rental fees based on a fixed percentage of tenant revenues subject to certain minimum monthly fees, and park usage fees.

- Port as a Service operating revenues include fixed rents, parking, citations, and new revenue sources from advertising, concession revenue, and business opportunities.

- Maritime operating revenues include charges for fixed rents, storage, other rental revenue, 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 revenues include police services provided to the SDCRAA, citation revenue, 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. Capital grants and contributions consist of grant 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 expenses, 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 (Plan) administered by San Diego City Employees' Retirement System (SDCERS) 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 revenue 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, 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 No. 68. In addition, it amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement No. 68 for pension plans and pensions that are within their respective scopes. Refer to Note 5, 13, and Required Supplementary Information for additional information related to GASB No. 73 implementation.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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. The primary purpose of Statement No. 82 is to improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues.

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

GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the District:

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 (other postemployment benefits or 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. This statement will be effective for the District beginning in fiscal year 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to establish criteria for determining the timing and pattern of recognition of certain Asset Retirement Obligations (AROs) and corresponding deferred outflows of resources. This statement will be effective for the District beginning in fiscal year 2019.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance for identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement will be effective for the District beginning in fiscal year 2020.

GASB Statement No. 85, *Omnibus 2017*. The objective of this statement is to address a number of practice issues arising from previously implemented GASB statements. Issues addressed in this statement include blending component units, goodwill, fair value measurement and application, pensions, and other postemployment benefits. This statement will be effective for the District beginning in fiscal year 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in the accounting and financial reporting of in-substance defeasance of debt. The statement also improves the accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement will be effective for the District beginning in fiscal year 2018.

GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows and outflows of resources based on contractual payment provisions. This statement will be effective for the District beginning in fiscal year 2021.

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

Summary of cash and investments:	2017	2016
Cash and cash equivalents	$ 43,851,046	$ 50,231,949
Investments	84,630,508	67,033,049
Restricted cash and investments:		
Refundable security deposits	2,485,214	1,812,279
Lane Field Mitigation Funds	3,000,000	3,000,000
Chula Vista Bayfront Infrastructure Improvement Funds	3,000,000	3,000,000
Other	2,905,008	2,370,317
Total restricted cash and investments	11,390,222	10,182,596
Designated cash and investments:		
Designated for specific capital projects and commitments	2,178,874	841,090
Total cash and investments	$ 142,050,650	$ 128,288,684

Cash and investments consist of the following:	2017	2016
Cash on hand, current	$ 2,500	$ 2,500
Deposits with financial institutions	3,862,336	2,820,110
Investments	138,185,814	125,466,074
Total cash and investments	$ 142,050,650	$ 128,288,684

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 on the following page 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 2017 and fiscal year 2016 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.

		Maximum Allowable Investment	
Investment Types Authorized by California Government Code and BPC 115	**Term to Maturity**	**Total (% of Portfolio)**	**Any One Issuer (% of Portfolio)**
U.S. Treasury Bills, Notes, Bonds	5 Years	No Restriction	No Restriction
U.S. Agency Obligations	5 Years	No Restriction	No Restriction
Bankers Acceptances	180 Days	40% Fair Market Value (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 or higher rated commercial paper if maturity does not exceed 31 days.

[2]Suprantational Obligations include Inter-American Development Bank, International Bank for Reconstruction and Development, and the International Finance Corporation.

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, 2017 and 2016.

Information pertaining to the portfolio's overall sensitivity to interest rate risk at June 30, 2017 and 2016 is provided in the following tables:

District Investments		**Remaining Days to Maturity**			
Investment Type	**Fair Value at June 30, 2017**	**120 Days or Less**	**121 to 360**	**361 to 720**	**721 to 1,080**
U.S. Treasury Securities	$ 7,985,393	$ —	$ —	$ 4,991,720	$ 2,993,673
Federal Agencies (Coupon)	78,252,909	48,341,688	18,969,837	7,964,964	2,976,420
Local Agency Investment Fund - LAIF	30,500,000	—	30,500,000	—	—
Supranational Obligations - Coupon	5,973,261	—	2,998,788	2,974,473	—
Shares of Beneficial Interest - JPA	9,486,205	—	9,486,205	—	—
Medium Term Notes	5,988,046	—	5,988,046	—	—
Totals:	**$ 138,185,814**	**$ 48,341,688**	**$ 67,942,876**	**$ 15,931,157**	**$ 5,970,093**

District Investments		**Remaining Days to Maturity**			
Investment Type	**Fair Value at June 30, 2016**	**120 Days or Less**	**121 to 360**	**361 to 720**	**721 to 1,080**
U.S. Treasury Securities	$ 11,006,045	$ 9,004,249	$ 2,001,796	$ —	$ —
Federal Agencies (Coupon)	59,042,411	38,015,509	15,012,970	6,013,932	—
Federal Agencies (Discount)	2,995,164	2,995,164	—	—	—
Local Agency Investment Fund - LAIF	39,000,000	—	39,000,000	—	—
Shares of Beneficial Interest - JPA	9,411,868	—	—	9,411,868	—
Medium Term Notes	4,010,586	2,000,456	—	2,010,130	—
Totals:	**$ 125,466,074**	**$ 52,015,378**	**$ 56,014,766**	**$ 17,435,930**	**$ —**

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, 2017 and 2016 for each investment type.

			Actual Rating					
Investment Type	**Fair Value at June 30, 2017**	**Minimum Rating**	**AAA**	**AA+**	**AA**	**AA-**	**AAf /S1+**	**Not Rated**
U.S. Treasury Securities	$ 7,985,393	n/a	$ —	$ 7,985,393	$ —	$ —	$ —	$ —
Federal Agencies (Coupon)	78,252,909	n/a	—	78,252,909	—	—	—	—
Local Agency Investment Fund - LAIF	30,500,000	n/a	—	—	—	—	—	30,500,000
Supranational Obligations - Coupon	5,973,261	AA	5,973,261	—	—	—	—	—
Shares of Beneficial Interest - JPA	9,486,205	n/a	—	—	—	—	9,486,205	—
Medium Term Notes	5,988,046	A	—	—	1,995,854	3,992,192	—	—
Totals:	**$ 138,185,814**		**$5,973,261**	**$86,238,302**	**$1,995,854**	**$3,992,192**	**$9,486,205**	**$ 30,500,000**

Investment Type	Fair Value at June 30, 2016	Minimum Rating	Actual Rating				Not Rated
			AA+	AA	A	AAf /S1+	
U.S. Treasury Securities	$ 11,006,045	n/a	$ 11,006,045	$ —	$ —	$ —	$ —
Federal Agencies (Coupon)	59,042,411	n/a	59,042,411	—	—	—	—
Federal Agencies (Discount)	2,995,164	n/a	2,995,164	—	—	—	—
Local Agency Investment Fund - LAIF	39,000,000	n/a	—	—	—	—	39,000,000
Shares of Beneficial Interest - JPA	9,411,868	n/a	—	—	—	9,411,868	—
Medium Term Notes	4,010,586	A	—	2,010,130	2,000,456	—	—
Totals:	**$ 125,466,074**		**$ 73,043,620**	**$ 2,010,130**	**$ 2,000,456**	**$ 9,411,868**	**$ 39,000,000**

On June 30, 2017, Standard & Poor's affirmed the U.S. credit rating of AA+. Moody's Investors Service affirmed their Aaa credit rating on August 24, 2017, and Fitch Ratings affirmed their AAA ratings on April 11, 2017. Funds held in trustee and fiscal agent accounts as of June 30, 2017 and 2016 met California Government Code minimum credit rating requirements.

Concentration of Credit Risk

The District's investment policy is consistent with the California Government Code with respect to the categorical limitations placed on the amount that may be invested in any one issuer. The District's investment holdings at June 30, 2017 and 2016, grouped by issuer, are identified in the tables below.

Issuer	Investment Type	Fair Value at June 30, 2017	Percentage of Portfolio
United States of America	U.S. Treasury Securities	$ 7,985,393	5.8%
Federal Home Loan Bank	Federal Agencies Securities	18,499,269	13.4%
Federal Home Loan Mortgage Corporation	Federal Agencies Securities	31,868,703	23.0%
Federal National Mortgage Association	Federal Agencies Securities	8,922,040	6.5%
Federal Farm Credit Bank	Federal Agencies Securities	18,962,897	13.7%
Walmart Stores Incorporated	Medium Term Notes	1,995,854	1.4%
Toyota Credit Corporation	Medium Term Notes	3,992,192	2.9%
CalTRUST Short-Term Fund	Shares of Beneficial Interest - JPA	9,486,205	6.9%
Local Agency Investment Fund	Local Agency Investment Fund	30,500,000	22.1%
International Bank for Reconstruction & Development	Supranational Obligations	5,973,261	4.3%
Totals:		**$ 138,185,814**	**100.0%**

Issuer	**Investment Type**	**Fair Value at June 30, 2016**	**Percentage of Portfolio**
United States of America	U.S. Treasury Securities	$ 11,006,045	8.8%
Federal Home Loan Bank	Federal Agencies Securities	17,012,508	13.6%
Federal Home Loan Mortgage Corporation	Federal Agencies Securities	35,010,307	27.9%
Federal National Mortgage Association	Federal Agencies Securities	2,002,028	1.6%
Federal Farm Credit Bank	Federal Agencies Securities	8,012,732	6.4%
Wells Fargo & Company	Medium Term Notes	2,000,456	1.6%
Walmart Stores Incorporated	Medium Term Notes	2,010,130	1.6%
CalTRUST Short-Term Fund	Shares of Beneficial Interest - JPA	9,411,868	7.4%
Local Agency Investment Fund	Local Agency Investment Fund	39,000,000	31.1%
Totals:		**$ 125,466,074**	**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 2017 and fiscal year 2016 were received using delivery-versus-payment procedures.

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

All individual securities as of June 30, 2017 and 2016 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, 2017 and 2016 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. Funds invested in the CalTRUST short-term fund may be withdrawn with a 24-hour notice.

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 $1.1 million both as of June 30, 2017 and as of June 30, 2016 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 Aaa-mf rated Wells Fargo Government Money Market Fund. The fund invests in short-term U.S. government obligations and repurchase agreements which are secured by U.S. Treasury obligations and has a weighted average maturity of 28 days. The Property Escrow Funds may be used by Dynegy solely in connection with the End of Term Actions stated in the Lease Agreement and the Remediation Measures as stated in the Environmental Remediation Agreement.

The District has an amended escrow agreement dated July 27, 1994 with the City of Imperial Beach to provide an escrow fund of $300 thousand for certain claim costs attributable to District property which may arise from beach clean-up, pier maintenance, and lifeguard services. The escrow funds are invested in a US Bank money market account and had a balance of $300 thousand as of June 30, 2017 and 2016.

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 $3.3 million on as of June 30, 2017 and $2.8 million as of June 30, 2016, 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, 2017, and AA- and A-1+ respectively as of June 30, 2016.

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 First American Treasury Obligations Fund in accordance with the language in the District's bond documents. The fund invests exclusively in short-term U.S. treasury obligations and repurchase agreements which are secured by U.S. treasury obligations and has a weighted average maturity of 21 days. The fund had a rating of AAAm from S&P, Aaa-mf from Moody's, and AAAmmf from Fitch as of June 30, 2017 and June 30, 2016.

(3) Capital Assets

Following is a summary of the capital assets activity for the fiscal years ended June 30, 2017 and June 30, 2016, respectively:

Capital Assets
(Expressed in thousands)

Description	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Nondepreciable assets:				
Land	$ 246,689	$ 5	$ —	$ 246,694
Construction-in-progress	14,277	14,460	(5,775)	22,962
Depreciable/amortizable assets:				
Land improvements	7,650	—	—	7,650
Buildings and structures	577,028	1,722	—	578,750
Machinery and equipment	88,316	7,456	(305)	95,467
Roads and parking lots	120,647	156	—	120,803
Intangible	3,563	215	—	3,778
Total assets	1,058,170	24,014	(6,080)	1,076,104
Accumulated depreciation/amortization:				
Land improvements	(6,480)	(224)	—	(6,704)
Buildings and structures	(362,286)	(14,022)	—	(376,308)
Machinery and equipment	(57,440)	(5,747)	305	(62,882)
Roads and parking lots	(84,739)	(2,993)	—	(87,732)
Intangible	(557)	(461)	—	(1,018)
Total accumulated depreciation/ amortization	(511,502)	(23,447)	305	(534,644)
Capital assets, net	$ 546,668	$ 567	$ (5,775)	$ 541,460

Capital Assets
(Expressed in thousands)

Description	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Nondepreciable assets:				
Land	$ 239,275	$ 7,414	$ —	$ 246,689
Construction-in-progress	22,441	19,829	(27,993)	14,277
Depreciable/amortizable assets:				
Land improvements	7,650	—	—	7,650
Buildings and structures	564,204	12,824	—	577,028
Machinery and equipment	86,482	2,189	(355)	88,316
Roads and parking lots	114,592	6,055	—	120,647
Intangible	2,377	1,186	—	3,563
Total assets	1,037,021	49,497	(28,348)	1,058,170
Accumulated depreciation/amortization:				
Land improvements	(6,256)	(224)	—	(6,480)
Buildings and structures	(348,489)	(13,797)	—	(362,286)
Machinery and equipment	(52,427)	(5,368)	355	(57,440)
Roads and parking lots	(81,709)	(3,030)	—	(84,739)
Intangible	(254)	(303)	—	(557)
Total accumulated depreciation/ amortization	(489,135)	(22,722)	355	(511,502)
Capital assets, net	$ 547,886	$ 26,775	$ (27,993)	$ 546,668

The District recognized depreciation/amortization expenses of $23.4 million and $22.7 million for the years ended June 30, 2017 and 2016, respectively.

(4) Long‑Term Debt

(a) Summary of Long-Term Liabilities

Below is a summary of long-term liabilities and their activity for the fiscal years ended June 30, 2017 and 2016, respectively:

	Balance at June 30, 2016 as Restated	Increases	Decreases	Balance at June 30, 2017	Amounts Due Within One Year
Notes:					
SDCRAA promissory note	$ 36,749,270	$ —	$ (1,705,491)	$ 35,043,779	$ 1,801,694
Civic San Diego loan advance - NEVP	3,594,532	—	(685,602)	2,908,930	718,071
Revenue bonds:					
Series A 2004 bonds payable	7,695,000	—	(1,795,000)	5,900,000	1,880,000
Series A 2004 bonds premium	144,832	—	(43,022)	101,810	—
Series A 2013 bonds payable	25,205,000	—	—	25,205,000	—
Series A 2013 bonds premium	2,108,539	—	(248,652)	1,859,887	—
Total notes and bonds	75,497,173	—	(4,477,767)	71,019,406	4,399,765
Other noncurrent liabilities:					
Unearned revenue - Other	174,707	1,654	(12,300)	164,061	—
Unearned revenue - NEVP credits	7,100,039	87,818	(391,879)	6,795,978	—
Net OPEB obligation	39,946,115	8,791,795	(3,204,589)	45,533,321	—
Net pension liability - GASB 68	80,591,608	76,250,605	(24,202,951)	132,639,262	—
Total POB pension liability - GASB 73	1,746,319	378,840	—	2,125,159	—
Accrued leave	5,887,028	5,706,556	(5,119,890)	6,473,694	4,985,282
SBPP remediation	1,061,139	4,490	(3,000)	1,062,629	—
Lane Field mitigation	3,000,000	—	—	3,000,000	—
Other long-term liabilities	32,409	289,885	(33,669)	288,625	—
Total other noncurrent liabilities	139,539,364	91,511,643	(32,968,278)	198,082,729	4,985,282
Total long-term liabilities	$ 215,036,537	$ 91,511,643	$ (37,446,045)	$ 269,102,135	$ 9,385,047

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016	Amounts due within one year
Notes:					
SDCRAA promissory note	$ 38,358,256	$ —	$ (1,608,986)	$ 36,749,270	$ 1,705,491
Civic San Diego loan advance - NEVP	7,674,518	—	(4,079,986)	3,594,532	685,601
Revenue bonds:					
Series A 2004 bonds payable	9,420,000	—	(1,725,000)	7,695,000	1,795,000
Series A 2004 bonds premium	181,675	—	(36,843)	144,832	—
Series A 2013 bonds payable	25,205,000	—	—	25,205,000	—
Series A 2013 bonds premium	2,349,590	—	(241,051)	2,108,539	—
Total notes and bonds	83,189,039	—	(7,691,866)	75,497,173	4,186,092
Other noncurrent liabilities:					
Unearned revenue - Other	182,874	1,215	(9,382)	174,707	—
Unearned revenue - NEVP credits	4,383,862	3,476,955	(760,778)	7,100,039	—
Net OPEB obligation	34,843,659	10,621,530	(5,519,074)	39,946,115	—
Net pension liability - GASB 68	67,007,825	30,470,264	(16,886,481)	80,591,608	—
Accrued leave	5,582,360	4,827,825	(4,523,157)	5,887,028	4,593,502
SBPP remediation	4,379,195	3,871	(3,321,927)	1,061,139	—
Lane Field mitigation	—	3,000,000	—	3,000,000	—
Other long-term liabilities	—	34,417	(2,008)	32,409	—
Total other noncurrent liabilities	116,379,775	52,436,077	(31,022,807)	137,793,045	4,593,502
Total long-term liabilities	$ 199,568,814	$ 52,436,077	$ (38,714,673)	$ 213,290,218	$ 8,779,594

The District's required debt service payments for the notes and bonds as of June 30, 2017, excluding the bond premium, are as follows:

Years Ending June 30	Principal	Interest	Total Debt Service
2018	$ 4,399,765	$ 3,512,047	$ 7,911,812
2019	4,629,380	3,281,107	7,910,487
2020	4,827,127	3,037,835	7,864,962
2021	4,782,570	2,779,445	7,562,015
2022	4,338,644	2,525,644	6,864,288
2023-2027	25,461,730	8,859,083	34,320,813
2028-2031	20,618,493	1,817,063	22,435,556
Total	$ 69,057,709	$ 25,812,224	$ 94,869,933

(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 Centre City Development Corporation, now known as Civic San Diego (CSD), to design and fund phases of the NEVP. The JPA provided that the District and CSD equally share the cost for the Phase I design, and that costs for subsequent phases shall be agreed upon in 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 former Redevelopment Agency of the City of San Diego acting through CSD. The First Amendment revised the definition of Phase I and established an estimated total construction cost of $28.6 million, subject to certain credits to the District for previous work on Broadway Pier and offsets for future maintenance.

According to Section 2, Item 6.1.5.3 of the First Amendment, the District has begun to pay $850 thousand annually to CSD as repayment of their loan advances. Upon the completion of Lane Field, the District shall pay CSD 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, and in accordance with Section 6.1.3 of the First Amendment, the District has previously applied the NEVP Phase I maintenance credit of approximately $4.4 million against the loan advances from CSD in recognition of the District's assumption of the maintenance obligations.

On August 21, 2015, the District notified the JPA that the improvements for NEVP Phase I and Setback Park/Plaza were complete, and the District's maintenance and security obligations have begun. The maintenance credit for Setback Park/Plaza was calculated to be $1.6 million, the security credit for Setback Park/Plaza was $384 thousand and the security credit for NEVP Phase I was $1.5 million, totaling approximately $3.5 million. On April 14, 2016, the CSD notified the District that they agreed to the maintenance and security credits totaling approximately $3.5 million and accordingly, the District has applied the $3.5 million credit during fiscal year 2016 against the loan advances from CSD.

The District recorded the maintenance and security credits of $3.5 million as unearned revenue under other noncurrent liabilities in fiscal year 2016.

(c) Revenue Bonds and Pledge of Revenues

Series A 2004 Bonds

On October 28, 2004, the District issued $23.0 million (par value) of Series A 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%. 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 2004 Bonds include serial and term bonds, with mandatory sinking fund requirements. The principal balance for term bonds outstanding on the Series A 2004 bonds as of June 30, 2017 is $5.9 million and is scheduled to be paid in three payments over the next three years.

Series A 2013 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 that is now defeased and is no longer in the District liability accounts. 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. The first payment of $270 thousand was made on June 30, 2014. The next principal payment will commence on June 30, 2021 for $2.0 million. Principal payments remaining as of June 30, 2017 total $25.2 million.

Pledged Revenues

Pledged revenues for the year ended June 30, 2017, totaled $174.6 million. This represents approximately 97.7% of total District revenues and 420.1% of the remaining Series A 2004 and 2013 Bonds' principal and interest requirements compared to $163.6 million for the year ended June 30, 2016. Net pledged revenues for the year ended June 30, 2017 totaled $33.2 million, which represents 991.4% 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, 2016 totaled $38.8 million, which represents 1,156.8% of the Series A 2004 and 2013 Bonds' annual principal and interest requirements of $3.4 million.

(d) Unearned Revenue

Unearned Revenue includes NEVP maintenance and security credits as mentioned in Note 4(b) Civic San Diego Advance – NEVP Phase I. The District accounts for realized revenue on the 50.0% Civic San Diego share of maintenance and security costs as the costs are incurred over a 30 year period in accordance with the terms of the First Amendment. Unearned revenue - NEVP credits as of June 30, 2017 is $6.8 million.

The District also accounted for realized revenue on maintenance expenses for other maintenance funds for artworks such as the Unconditional Surrender, Bob Hope, and Pacific Spirit. Unearned revenue - Other as of June 30, 2017 is $164 thousand.

(e) Accrued Leave

All employees of the District earn annual leave that is paid upon termination or retirement. The accrued leave of $6.5 million is based on current compensation rates.

(f) South Bay Power Plant Site Demolition and Remediation

Pursuant to the Asset Sale Agreement between the District and SDG&E, the District acquired the South Bay Power Plant (Plant) in April 1999, and the Plant was subsequently leased to Duke Energy South Bay, LLC (Duke South Bay).

In May 2006, the BPC adopted a resolution granting consent to transfer ownership of Duke South Bay to LS Power Generation, LLC (LS Power), at the request of Duke Energy Americas, LLC the parent company of Duke South Bay. 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.

In November 2006, the BPC consented to LS Power's merger with Dynegy Inc. (Dynegy). The merger included a transfer of control of the equity interests in LSP South Bay from LS Power to Dynegy. 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, which the District deposited into a property escrow account, and together with their earnings are 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, 2017 and 2016 were $1.1 million and $1.1 million, respectively. This amount is reported in the Statements of Net Position as 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.

On February 2, 2013, the above ground superstructure for the Plant was demolished. Dynegy completed the decommissioning of the Plant and removal of below ground foundations and improvements in 2016.

The California Department of Toxic Substances Control (DTSC) is the lead agency for the environmental investigation and remediation of the Plant site. SDG&E entered into a Consent Agreement with DTSC in 2006 for cleanup of Solid Waste Management Units (SWMUs) at the Plant site. Most of the SWMUs at the site have been investigated and remediated. However, there remains areas of the site that still require environmental work in order to obtain final closure from DTSC. As part of this process, DTSC will also require a site-wide human health and ecological risk assessment to ensure that the site is adequately remediated for the intended future use of the property by the District.

(g) Lane Field Mitigation

In fiscal year 2016, the District recorded a $3.0 million fee under a MOU with the California Coastal Commission and Lane Field Development. The fee is for the purposes of establishing lower cost overnight visitor accommodations at appropriate locations on tidelands with the City of San Diego. The Coastal Commission requires that the funds be used within 5 years of payment after which any remaining balance may be transferred to another entity that can provide low cost accommodations within SD County Coastal Zone.

(5) Defined Benefit Pension Plan

Plan Descriptions

The District's defined benefit pension plan (Plan), administered by the 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 with five years of service (excludes five year permissible purchased service), or any age with 30 years of service with the District. Safety Members hired after January 1, 2013 are eligible to retire at age 50 with five years of service. 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.

(a) GASB Statement No. 68 Disclosures

Plan Benefits

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	General		
Hire date	Prior to January 1, 2009 (General)	On or after January 1, 2009 (Miscellaneous)[1]	On or after January 1, 2013 (PEPRA)[2]
Benefit formula	3.0% @ 60	0.75 to 1.5% @ 62	0.75 to 1.5% @ 62
Benefit vesting schedule	5 years service	10 years service	10 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 – 62	55 – 62	55 – 62
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	0.75% to 1.5%	0.75% to 1.5%
Required employee contribution rates	10.05%	0%[1]	50% of Normal Cost
Required employer contribution rates	43.89%	8.07%	N/A[2]

[1]For employees 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. Miscellaneous members are not expected to contribute to the plan.
[2]For employees hired on or after January 1, 2013, 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 and as a result, the actuarial valuation has not yet reflected the contribution rates for members hired on or after January 1, 2013. PEPRA members will be subject to a number of plan provisions including requirement to pay at least 50% of the normal cost with no offset.

	Safety		
Hire date	Prior to January 1, 2010	On or after January 1, 2010	On or after January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 – 55	50 – 55	50 – 55
Monthly benefits, as a % of eligible compensation	2.5% to 3.0%	2.5% to 3.0%	2.0% to 2.7%
Required employee contribution rates	13.26%	13.26%	11.19%
Required employer contribution rates	53.75%	53.75%	12.65%

Employees Covered

As of the measurement date of June 30, 2016, the following employees were covered by the benefit terms of the Plan:

	General	**Safety**
Inactive employees or beneficiaries currently receiving benefits	446	112
Inactive employees entitled to but not yet receiving benefits	241	38
Active employees	251	111
Total	938	261

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. The weighted contribution rates for fiscal years 2017 and 2016, determined by the June 30, 2015 and June 30, 2014 actuarial valuations, are as follows:

	2017	2016
General Members	9.55%	9.85%
Safety Members	13.09%	13.38%

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."

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. For the fiscal years 2017 and 2016, the District paid employee contribution offsets of $2.3 million and $2.4 million, respectively. 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 fiscal years 2017 and 2016, the contributions made by the District to the Plan are as follows:

	2017	2016
Contributions - employer	$ 14,600,000	$ 14,400,000
Contributions - employee (paid by employer)	$ 2,287,740	$ 2,422,241

Based on the June 30, 2015 and June 30, 2014 actuarial valuations, the fiscal years 2017 and 2016 employer's actuarially determined weighted contribution rates expressed as a percentage of compensation are as follows:

	2017	2016
General Members	40.08%	40.09%
Safety Members	48.99%	47.68%

Net Pension Liability

The District's net pension liability as of June 30, 2017 is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability as of June 30, 2017 is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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 liability in the June 30, 2016 and June 30, 2015 GASB 67/68 actuarial valuations were determined using the following:

Description	June 30, 2016	June 30, 2015
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial cost method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:		
Discount rate	7.00%	7.25%
Inflation	3.05%	3.30%
Cost-of-living adjustment	1.90%	2.00%
Projected salary increase	3.05%[1]	3.30%[1]
Investment rate of return	7.00%[2]	7.25%[2]
Mortality	0.02% to 13.54%[3]	0.02% to 18.34%[4]

[1] Plus merit component based on employee classification and years of service.
[2] Net of investment expenses.
[3] Mortality: All active member and healthy retired members follow CALPERS mortality tables based on the CALPERS January 2014 Experience Study, projected 20 years from the 2009 base year using a variation of Scale MP-2015 from the Society of Actuaries. Further details of the mortality rate can found in the SDCERS' June 30, 2016 actuarial valuation report.
[4] 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, 2015 actuarial valuation report.

Change in Assumptions - In September 2016, the SDCERS Board adopted select economic and demographic assumptions for the Plan reflected within an Experience Study covering the period July 1, 2010 through June 30, 2015. Additional assumptions used in the valuation were presented to the SDCERS Board in November 2016 in a full Economic Experience Study. Both studies were performed by the actuarial consulting firm Cheiron. Full description of the assumptions used can be found in the June 30, 2016 SDCERS San Diego Unified Port District GASB 67/68 report.

The change in these assumptions resulted in a $35.8 million increase in the pension liability. There were no changes in benefits during the year. The significant increase was driven by the changes in demographic and economic assumptions with the largest increase coming from changes in mortality assumption (members living longer than expected). Included in the 2017 pension expense is $17.9 million of the change with the remaining $17.9 million included in deferred outflows and is expected to be recognized in 2018 pension expense.

Discount Rate - The discount rate used to measure the total pension liability was 7.00% for June 30, 2016 and 7.25% for June 30, 2015 measurement dates. 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 plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the discount rates of 7.00% and 7.25% were 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, 2016 and June 30, 2015. 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 investment expenses.

Target Asset Allocation and Rates of Return
as of June 30, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return	Long-Term Expected Nominal Rates of Return
U.S. Equity	21.0%	4.5%	6.7%
Non - U.S. Equity	15.0%	5.5%	7.8%
Global Equity	5.0%	5.1%	7.3%
U.S. Fixed Income	22.0%	0.9%	3.0%
Emerging Market Debt	5.0%	3.7%	5.9%
Real Estate	11.0%	3.6%	5.9%
Private Equity & Infrastructure	13.0%	6.6%	8.8%
Opportunity Fund	8.0%	4.4%	6.6%
Total	100.0%		

Target Asset Allocation and Rates of Return
as of June 30, 2015

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return	Long-Term Expected Nominal Rates of Return
U.S. Equity	21.0%	4.5%	6.7%
Non - U.S. Equity	14.0%	4.6%	6.8%
Emerging Market Equity	1.0%	5.8%	8.0%
Global Equity	5.0%	4.7%	6.9%
U.S. Fixed Income	22.0%	0.6%	2.8%
Emerging Market Debt	5.0%	3.7%	5.9%
Real Estate	11.0%	4.1%	6.3%
Private Equity & Infrastructure	13.0%	6.6%	8.8%
Opportunity Fund	8.0%	4.1%	6.2%
Total	100.0%		

Changes in the Net Pension Liability

Changes in the Net Pension Liability through the year ended June 30, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**
Balance at June 30, 2015	$ 450,385,398	$ 369,793,790	$ 80,591,608
Changes in the year:			
Service cost	7,647,969		7,647,969
Interest on the total pension liability	32,102,235		32,102,235
Differences between actual and expected experience	(2,243,475)		(2,243,475)
Changes in assumptions	35,813,469		35,813,469
Changes in benefit terms			
Contribution - employer		14,400,000	(14,400,000)
Contribution - employee (paid by employer)		2,422,241	(2,422,241)
Contribution - employee		1,277,360	(1,277,360)
Net investment income		3,859,875	(3,859,875)
Benefit payments	(23,110,395)	(23,110,395)	—
Administrative expenses		(686,932)	686,932
Net changes	50,209,803	(1,837,851)	52,047,654
Balance at June 30, 2016	$ 500,595,201	$ 367,955,939	$ 132,639,262

Source: *SDCERS GASB 67/68 Report with a measurement date of June 30, 2016*

Changes in the Net Pension Liability through the year ended June 30, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**
Balance at June 30, 2014	$ 429,008,437	$ 362,000,612	$ 67,007,825
Changes in the year:			
Service cost	7,968,724	—	7,968,724
Interest on the total pension liability	30,611,374	—	30,611,374
Differences between actual and expected experience	4,572,336	—	4,572,336
Changes in assumptions	—	—	—
Changes in benefit terms	—	—	—
Contribution - employer	—	16,886,481	(16,886,481)
Contribution - employee (paid by employer)	—	—	—
Contribution - employee	—	1,309,360	(1,309,360)
Net investment income	—	12,063,813	(12,063,813)
Benefit payments	(21,775,473)	(21,775,473)	—
Administrative expenses	—	(691,003)	691,003
Net changes	21,376,961	7,793,178	13,583,783
Balance at June 30, 2015	$ 450,385,398	$ 369,793,790	$ 80,591,608

Source: *SDCERS GASB 67/68 Report with a measurement date of June 30, 2015*

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 dates June 30, 2016 and June 30, 2015, calculated using the discount rate, as well as what the District's net pension liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Net Pension Liability	**1% Decrease 6.00%**	**Discount Rate 7.00%**	**1% Increase 8.00%**
June 30, 2016	$194,893,201	$132,639,261	$81,289,052

Net Pension Liability	**1% Decrease 6.25%**	**Discount Rate 7.25%**	**1% Increase 8.25%**
June 30, 2015	$134,552,310	$80,591,608	$35,680,792

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 years ended June 30, 2017 and June 30, 2016, the District recognized pension expense of $31.8 million and $9.6 million, respectively. At June 30th, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Pension contributions subsequent to measurement date	$ 14,600,000	$ —	$ 16,918,957	$ —
Difference between actual and expected experience	1,524,112	1,121,737	3,048,224	—
Changes in assumptions	17,906,734	—	—	—
Net differences between projected and actual earnings on plan investments	15,118,718	—	—	6,721,175
Total	$ 49,149,564	$ 1,121,737	$ 19,967,181	$ 6,721,175

Deferred outflows of resources related to contributions subsequent to the measurement date in the amount of $14.6 million at June 30, 2017 will be recognized as a reduction of the net pension liability during the year ended June 30, 2018. The deferred outflows and deferred inflows of resources related to pensions at June 30, 2017 will be recognized as pension expense as follows:

Year Ending June 30	**Pension Expense**
2018	$ 19,747,596
2019	$ 1,438,485
2020	$ 7,586,071
2021	$ 4,655,675

Payable to the Pension Plan

The District had no outstanding annually determined contributions payable to the pension plan for the year ended June 30, 2017.

(b) 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 2017 and 2016, the District paid $260 thousand and $273 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 year 2017 was $215 thousand and calendar year 2016 was $210 thousand. For non-safety members, the limit is adjusted downward depending on the age of the participant when benefits began.

Pension Liability

The District's Preservation of Benefits pension liability as of June 30, 2017 is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the pension liability are shown below.

Actuarial Assumptions - The total pension liability in the June 30, 2016 GASB 73 actuarial valuation was determined using the following actuarial assumptions:

Description	**Actuarial Valuation June 30, 2016**
Valuation Date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry-Age Actuarial Cost Method
Actuarial assumptions:	
Discount rate	2.85%
Cost-of-living adjustment	1.9-2.0%
Projected salary increase	3.05%[1]
Mortality - Healthy	0.09% to 13.54%[2]
Mortality - Disabled	0.17% to 13.54%[3]

[1] Plus merit component based on employee classification and years of service.
[2] Healthy retired members follow the CALPERS Mortality Tables, projected 20 years from 2009 base year using a variation of scale MP-2015, with a 10% increase to healthy retired female rates. Further details of the mortality rate can found in the SDCERS' June 30, 2016 actuarial valuation reports.
[3] Disabled retirees are variations of the CALPERS Work Related Disability Mortality Tables, projected 20 years from 2009 base year using a variation of scale MP-2015. Further details of the mortality rate can found in the SDCERS' June 30, 2016 actuarial valuation reports.

Change in Assumptions - In September 2016, the SDCERS Board adopted select economic and demographic assumptions for the Plan reflected within an Experience Study covering the period July 1, 2010 through June 30, 2015. Additional assumptions used in the valuation were presented to the SDCERS Board in November 2016 in a full Economic Experience Study. Both studies were performed by the actuarial consulting firm Cheiron. The change in these assumptions resulted in a $297 thousand increase in the POB liability. Full description of the assumptions used can be found in the June 30, 2016 Preservation of Benefits Plan San Diego Unified Port District GASB 73 Report.

Discount Rate - Paragraph 31 of GASB 73 states that the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with average rate of AA/Aa or higher. The discount rate used to measure the total pension liability was 2.85% based on the Bond Buyer 20-Year GO Index as of June 30, 2016.

Changes in the Total Pension Liability through the year ended June 30, 2016 were as follows:

POB Plan	Increase (Decrease) Total Pension Liability
Balance at June 30, 2015	$ 2,019,887
Changes in the year:	
Service cost	9,503
Interest on the total pension liability	72,730
Differences between actual and expected experience	—
Changes in assumptions	296,607
Changes in benefit terms	—
Contribution - employer	—
Contribution - employee (paid by employer)	—
Contribution - employee	—
Net investment income	—
Benefit payments	(273,568)
Administrative expenses	—
Net changes	105,272
Balance at June 30, 2016	$ 2,125,159

Sensitivity of the Pension Liability to Changes in the Discount Rate - The following presents the pension liability of the District, as of the June 30, 2016 measurement date, calculated using the discount rate, as well as what the District's pension liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

POB Plan Pension Liability	1% Decrease 1.85%	Discount Rate 2.85%	1% Increase 3.85%
June 30, 2016	$2,286,055	$2,125,159	$1,988,761

For the year ended June 30, 2017, the District recognized POB Plan pension expense of $231 thousand and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017 POB Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 260,000	$ —
Difference between actual and expected experience	—	—
Changes in assumptions	148,303	—
Total	$ 408,303	$ —

Deferred outflows of resources related to contributions subsequent to measurement date in the amount of $260 thousand at June 30, 2017 will be recognized as an decrease to the pension liability during the year ended June 30, 2018. The deferred outflows and deferred inflows of resources related to pensions at June 30, 2017 will be recognized as pension expense as follows:

Year Ending June 30	Pension Expense
2018	$ 148,303
2019	—
2020	—
2021	—

(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, 2017 and 2016, 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 April 27, 2017, the UAAL as of July 1, 2016 was $99.5 million and the ARC for the fiscal year ended June 30, 2017 was $9.8 million. Based on the actuarial report issued June 30, 2015, the UAAL as of July 1, 2014 was $94.3 million and the ARC for the fiscal year ended June 30, 2016 was $9.1 million. The District recognized $8.8 million as OPEB expense for the year ended June 30, 2017 and $8.3 million for the year ended June 30, 2016. Of these amounts, $3.2 million was the total contributions made in 2017 and $3.2 million in 2016. In 2017, a total of $5.6 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, 2017 and 2016:

	2017	2016
Annual required contribution	$ 9,767,346	$ 9,053,565
Interest on net OPEB obligation	1,797,575	1,567,965
Adjustment to annual required contribution	(2,773,126)	(2,356,781)
Annual OPEB cost (expense)	8,791,795	8,264,749
Contributions made	(3,204,589)	(3,162,293)
Increase in net OPEB obligation	5,587,206	5,102,456
Net OPEB obligation – beginning of year	39,946,115	34,843,659
Net OPEB obligation – end of year	$ 45,533,321	$ 39,946,115

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 2015, 2016, and 2017 were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 8,432,808	37%	$ 34,843,659
2016	$ 8,264,749	38%	$ 39,946,115
2017	$ 8,791,795	36%	$ 45,533,321

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, 2016.

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, 2016	$ —	$99,506,861	$(99,506,861)	0.0%	$44,910,716	221.6%

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

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

The required annual contribution and unfunded liability was determined as part of the July 1, 2016 actuarial valuation that assumes: (a) 4.5% investment rate of return, and (b) annual healthcare cost increase ranging from an initial rate of 7.0% to an ultimate rate of 5.0% over a four year period. The valuation was performed using the projected unit credit and the UAAL is being amortized over 22 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, 2017, were as follows:

Self-Insured Retentions/Deductibles
(as of June 30, 2017)

Coverage		
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
Pollution liability*	$	50,000
Fiduciary liability	$	25,000
Crime/public employee dishonesty	$	5,000
Marine protection and indemnity	$	5,000
Automobile liability (hired auto physical damage)	$	1,000
Foreign property & liability	$	1,000

*Pollution liability was specifically purchased for the Pacifica Land Exchange transaction.

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. As of June 30, 2017 and 2016, the escrow account amount was $3.3 million and $2.8 million, respectively. 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, 2017, the District recorded $4.1 million for workers' compensation claims liabilities, which include anticipated future expenses on open workers' compensation claims based on estimates provided by the District's workers' compensation carrier. The insurance carrier determines the reserves required to pay for future liabilities by estimating the probable ultimate cost for the life of each claim, including consideration of any incremental claim adjustment expenses. This is done by estimating the three categories of exposure on each claim: temporary or permanent disability, medical expenses, and legal and other associated claims expenses. However, the District's ultimate exposure is limited to the amount of the 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, 2017 and 2016 were as follows:

Year Ended June 30	Claims Liability at Beginning of Period	Claims Incurred During the Period, and Changes in Estimate	Claims Payment	Claims Liability at End of Period
2016	$ 1,647,122	$ 2,279,184	$ (1,023,758)	$ 2,902,548
2017	$ 2,902,548	$ 2,300,378	$ (1,118,408)	$ 4,084,518

(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 $3.1 million and $4.1 million at June 30, 2017 and 2016, 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 $77.8 million in 2017 and $69.1 million in 2016. 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 $36.0 million in 2017 and $35.2 million in 2016.

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

Years Ending June 30	
2018	$ 78,506,871
2019	74,604,308
2020	73,268,377
2021	73,129,675
2022	72,537,691
Thereafter	2,029,963,215
Total	$ 2,402,010,137

Future rents were determined based on minimum rents stipulated under the leases up to the lease expiration date (table above reflects terms through fiscal year 2082) 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 estimated book value of capital assets leased to others at June 30, 2017 consist of the following:

Book Value of Leased Capital Assets and Accumulated Depreciation		
Land	$	143,915,907
Land Improvements		4,904,431
Building & Structures		327,385,107
Equipment		20,340,105
Roads & Parking Lots		51,842,217
		548,387,767
Less accumulated depreciation		(295,410,309)
Net book value of leased capital assets	$	252,977,458

(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 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 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. In fiscal year 2016, CSLC notified the District that the minimum annual rent has been increased from $12,009 to $13,077. In fiscal year 2017, the District estimates that the rental adjustment based on the 3.8% of the District's gross income from gross sales generated by the sublease of the premises in excess of the minimum annual rental is $5,418.

(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 of the lease. In fiscal year 2014, CSLC notified the District that the minimum annual rent was increased from $10,000 to $14,965.

(e) Westerly Corner of Sassafras Street and Pacific Highway known as 3045 Pacific Highway

The District leases approximately 20,100 square feet of land located at the westerly corner of Sassafras Street and Pacific Highway from Caltrans for the purpose of operating attended parking lots for tideland activities by a current District tenant. The lease term is for eight years commencing on September 1, 2015. The rental rates shall be subject to a 3% increase every other year. The rental rate shall be subject to adjustment review every five years by negotiating a fair market lease rate agreed upon by both parties. The District and Caltrans agreed that the monthly rent would be $2,098 or $25,176 annually.

(f) Corner of Sassafras Street and Pacific Highway known as 3275 Pacific Highway

The District leases approximately 56,100 square feet of land located at the corner of Sassafras Street and Pacific Highway from Caltrans for the purpose of operating attended parking lots for tideland activities by a current District tenant. The lease term is for eight years commencing on September 1, 2015. The rental rates shall be subject to a 3% increase every other year. The rental rate shall be subject to adjustment review every five years by negotiating a fair market lease rate agreed upon by both parties. The District and Caltrans agreed that the monthly rent would be $9,032 or $108,384 annually.

Future rent payments under the above operating lease agreements as of June 30, 2017 are as follows:

Years Ending June 30	
2018	$ 341,821
2019	344,737
2020	347,793
2021	350,798
2022	352,040
2023-2027	1,123,837
2028-2032	865,907
2033-2037	877,768
2038-2042	890,814
2043-2047	905,166
2048-2052	848,870
2053-2057	747,300
2058-2062	747,300
2063-2067	747,300
2068-2072	224,190
Total	$ 9,715,641

Total rental expenses for the above mentioned operating leases for the fiscal years ended June 30, 2017 and 2016, were approximately $362 thousand and $314 thousand, respectively.

(11) Commitments and Contingencies

(a) Commitments

As of June 30, 2017, 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 No. 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 May 16, 2017, the fiscal year 2014-2018 CIP was amended by the Board and included a transfer of $15.7 million from unrestricted resources to fund new and existing CIP projects. On August 8, 2017, a resolution was approved establishing a new five-year CIP for fiscal year 2019-2023 which includes the remaining projects and funds from the fiscal year 2014-2018 CIP. As of June 30, 2017, the remaining cost to complete CIP projects which were approved to be funded from existing cash resources, excluding projects funded by grants, donations, and contributions, was $26.6 million compared to $12.6 million as of June 30, 2016. The $26.6 million excludes $7.1 million of matching funds to complete the TAMT Modernization Project partially funded by the TIGER Discretionary Grant program.

   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 $2.2 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 revenues are 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 $7.7 million for fiscal year 2017 compared to $7.6 million in fiscal year 2016. In addition, the District has a contract with the City of Imperial Beach for tidelands maintenance services at a cost of $964 thousand for fiscal year 2017 and $942 thousand in fiscal year 2016.

(b) Contingencies

As of June 30, 2017, 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 in and around San Diego Bay. Much of that land is leased to private and public operators through various rental agreements for uses that are constituent with the Port Act. The operations of some of those tenants have resulted in discharges to the environment requiring regulatory action. Administrative agencies such as the San Diego County Department of Environmental Health Services (DEH) and the California Regional Water Quality Control Board, San Diego Region (RWQCB) issue enforcement orders to regulate activities and to assess and remediate contamination. These enforcement efforts sometimes include discussions with the District and consideration of adding the District to regulatory orders regulating the operations and cleanup obligations despite the fact that the District generally does not conduct the operations or cause the discharges at issue.

In addition,the District's leases and operating agreements with its tenants typically include provisions requiring the tenant/operators to comply with all laws, including laws strictly prohibiting discharge to the environment and related contamination, and indemnify the District for any damage to property or losses to the District as a result of the tenant's operations. 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 environmental claims are asserted against the District, the District not only vigorously defends them but also seeks contribution and/or indemnity from the responsible parties, 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) 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 CAO 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 implementing the long-term Monitoring and Reporting Program. The District is also evaluating the sources of newly discovered contamination within the site boundaries, which could require additional remedial efforts. The best estimate for the cost at this time is $550 thousand which was recorded as an expense in this fiscal year.

(b) Shelter Island Yacht Basin (SIYB): In 1996, the 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.

    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 December 2017 and developing activities to meet that goal.

(c) Lockheed Tow Basin and Marine Railway Facilities: The District has resolved its liability for the remediation of sediment contamination in a portion of the East Basin of Harbor Island through litigation previously initiated by the District against Lockheed Martin Corporation and General Dynamics Corporation. Lockheed Martin operated the Marine Railway Facility, and General Dynamics and Lockheed Martin operated the former Tow Basin facility, in a manner that resulted in this contamination. The District was subject to cross-complaints from these defendants seeking to apportion to the District some liability for costs and fees incurred in the investigation and remediation of environmental contamination in this area.

    The District entered into a settlement with Lockheed Martin and General Dynamics that was approved by the court on June 20, 2017. Pursuant to the settlement, Lockheed Martin will remove and remediate contaminated sediments in the East Basin and also remove its Lockheed Marine Railway Facility. General

Dynamics will contribute $850,000 to Lockheed Martin for the remediation work. The District will not contribute out-of-pocket but will provide other valuable consideration in the form of rental abatement to Lockheed Martin during the demolition and remediation for a period of up to 36 months, beginning on the date all permits necessary to perform the work have been approved. Lockheed will also reimburse the District for certain increased future development costs that may be incurred as a result of the contamination. The court entered an order protecting the District from certain third party claims that could be brought in the future. The litigation has been dismissed. Lockheed is moving forward with the regulatory permitting and seeking related approvals for the remediation.

(d) 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, City of Chula Vista, and Pacifica Company have completed 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.

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.

On May 12, 2017, the District and Rohr completed the mediation and the District entered into a settlement agreement with Rohr. As a result, the parties to the lawsuit requested that the case be dismissed. On August 1, 2017, the case was dismissed by the California Superior Court without prejudice.

(e) 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. Site investigations are ongoing.

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.

On March 30, 2017, Pepper Oil and Southern California Truck Stop amended their cross-complaint to name San Diego Wood Preserving as a defendant based on its former operation of an adjacent wood treatment facility. San Diego Wood Preserving answered and filed cross complaints against all parties. Discovery is ongoing.

The District's share of liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

(f) Laurel Hawthorn Central Embayment (LHCE): In June 2014, the RWQCB issued an investigation 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 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.

RWQCB has indicated that they intend to issue one or more additional investigative orders to evaluate sediment contamination in the Laurel Hawthorn Embayment to the District, SDCRAA, General Dynamics, the City of San Diego, Solar Turbines, and Navistar within the coming months.

The District's share of liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

(g) 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 presented a proposed study work plan to the RWQCB in 2015. The estimated study cost was $52,000. The District is waiting on a response from RWQCB before proceeding with the proposed plan. The District's potential liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

(h) Mouth of Chollas Creek: On October 26, 2015, the RWQCB issued an investigation order directing the District and BNSF Railway, Caltrans, City of La Mesa, City of Lemon Grove, City of San Diego, Metropolitan Transit System, NASSCO, and the US Navy to conduct an investigation of bay sediments within the mouth of Chollas Creek, which the RWQCB defined as an "approximately 24.9 acre" area "bounded on the east by the weir located downstream of the Belt Street Bridge, on the north side by the NASSCO pier, and to the south by

Naval Base San Diego Pier 1 extending to the end of the piers." The order lists the District as a secondary discharger, which means that the District need not comply unless and until the others listed on the order fail to comply. The City of San Diego has taken the lead on drafting the Phase 1 work plan and initial investigation. Results from Phase 1a of the Investigation were submitted to the RWQCB and additional changes were requested by the Regional Board to be incorporated into Phase 1b/Phase 2 work plans and investigations. The Phase 1b/2 Work Plan is due to the RWQCB August 2017 and sampling is scheduled for September 2017. The District's potential liability for this matter cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

(i) 1444 Crosby Street: The DEH has referred the case regarding a reported pipeline release near 1444 Crosby Street to the RWQCB. The DEH reported that the release was detected during a site assessment for a release at the adjacent property in 1996. The District presented a summary of known contamination and prior remedial efforts to the RWQCB in March 2016. The District completed an additional investigation of this area in second quarter 2017 and has a submitted an investigation and request to close the case to the RWQCB. The District's potential liability for this matter cannot be reasonably estimated at the present time.

(j) Naval Training Center (NTC) Boat Channel: The Navy Boat Channel was formerly part of the larger 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 indicated that it may seek a portion of its sediment investigation and remediation costs from the District due to the District's prior operation of the airport, which is adjacent to the Navy Boat Channel, as well as the SDCRAA and City of San Diego. Discussions are ongoing. The District's share of liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

(k) Tenth Avenue Marine Terminal Sediment Investigative Order: The RWQCB issued a sediment investigative order to the District and the City of San Diego to assess potential impacted sediments and sources of sediment contamination in the vicinity of the Tenth Avenue Marine Terminal on August 4, 2017. The order requires the submission of a work plan by January 31, 2018. The District's potential liability for this matter cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

(l) Broadway Pier Mobile Gangway Power Unit: In July 2017, the District received a notice of violation from the San Diego County Air Pollution Control District for non-registration of a diesel powered generator. The District is now in the process of registering this power unit. The District's potential liability for this matter cannot be reasonably estimated at the present time.

(m) South Bay Power Plant: The District purchased the South Bay Power Plant from SDG&E through an Asset Sale Agreement in 1999. The South Bay Power Plant was then operated by Duke South Bay and subsequently by Dynegy from 2000 to 2014. Pursuant to the Asset Sale Agreement, SDG&E agreed to remediate contamination except for areas underlying the assets that continued to be operated by Duke South Bay and Dynegy. Duke South Bay and Dynegy were responsible for demolition and decommissioning of the remaining power plant assets (which has been completed) and are also responsible for remediating certain contamination in those areas. Duke South Bay and Dynegy also entered into several guarantee agreements with the District related to, among other things, their environmental obligations.

In 2006, the California Department of Toxic Substances Control entered into a Consent Agreement with SDG&E to cleanup waste management units at the site. The California Department of Toxic Substances Control has indicated that it will require additional investigation and potentially additional remediation at certain portions of the site.

In late 2016, SDG&E sent the District a letter demanding reimbursement for costs associated with its investigation and remediation. Discussions are ongoing among SDG&E, the District, and the Department of Toxic Substances Control regarding the extent of additional work required to address any remaining environmental issues at the South Bay Power Plant site. Discussions regarding cost allocation between District, SDG&E, Duke South Bay, and Dynegy are also ongoing. The District's potential liability for this matter cannot be reasonably estimated at the present time.

(n) Monsanto Litigation: The District has filed a lawsuit against the Monsanto Company, Solutia, Inc., and Pharmacia, Inc. for public nuisance and purpresture deriving from the presence of PCBs in and around San Diego Bay. The District demands compensatory and other damages, a judicial determination that each defendant is liable for future costs related to the investigation, remediation, and removal of PCBs from in and around the Bay, an order that the defendants pay for the establishment of a fund used by the District to abate the public nuisance created by the presence of PCBs, an order that the Defendants abate the purpresture created by PCBs, and other costs and damages as may be awarded.

Monsanto filed counterclaims against the District under federal and California environmental statutes and California common law in 2017, all of which generally allege the District's responsibility for PCB contamination and related costs and damages. The District has moved to dismiss Monsanto's counterclaims. The parties are awaiting the court's decision.

The District's potential liability related to Monsanto's counterclaims cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

(o) National City Marine Terminal Notice of Violation: The District received a written notice of violation from the San Diego Coastkeeper and the Coastal Environmental Rights Foundation for alleged violations of the Industrial General Permit at the National City Marine Terminal in September 2016. Since this time, at the District's request, the RWQCB has processed a notice of termination of the Industrial General Permit formerly held by the District for the facility due to the fact that the District does not operate the National City Marine Terminal, which is instead operated by Pasha Automotive Services under a long-term Terminal Operator Agreement. Discussions regarding liability are ongoing. The District's potential liability for this matter cannot be reasonably estimated at the present time.

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 District successfully defended three lawsuits filed by San Diego Navy Broadway Complex Coalition. The first lawsuit filed in November 2013 and the second filed in March 2014 were been consolidated by the court. The third lawsuit was filed in June 2015. All complaints allege 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 and Hilton Hotel expansion projects. The court ruled in favor of the District in all the lawsuits. The petitioner has filed an appeal in the consolidated lawsuit and the District filed a cross-appeal on a procedural issue. The amount cannot be reasonably determined at the present time.

iv. The District has certified claims against it and is named as a defendant in certain other legal actions arising from occurrences and transactions conducted in the ordinary course of business, including without limitation, contract disputes, personal injury matters, and employment claims. 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 each of these matters. Therefore, to the extent possible, a reasonable estimate of the potential aggregate liability has been recorded in the District's basic financial statements as of June 30, 2016 and June 30, 2017 for these claims and lawsuits.

(12) GASB Statement No. 72, *Fair Value Measurement and Application*

The District began the fair value measurement and application of GASB Statement No. 72 in June 30, 2016. This statement establishes a hierarchy for ranking the quality and reliability of information used to determine fair values of certain assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The District utilizes the Market approach as a valuation technique in the application of GASB Statement No. 72 for its investment portfolio. This method uses prices and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

The District categorizes its fair value measurements for the investment portfolio within the fair value hierarchy established by generally accepted accounting principles. The hierarchy provides three levels of the fair value with the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurement); valuations based on inputs (other than quoted prices included within Level 1) that are observable either directly or indirectly (Level 2 measurement); and, valuations that have significant unobservable inputs (Level 3 measurement). The investments in LAIF and CalTrust are not subject to fair value hierarchy.

The District has the following recurring fair value measurements as of June 30, 2017 and June 30, 2016:

Asset Type:

- U.S. Treasury Securities of $8.0 million and $11.0 million as of June 30, 2017 and June 30, 2016, respectively, are classified as Level 2 of the fair value hierarchy. These investments are typically traded in the secondary market and are valued by a pricing service using available market information and pricing models and methodologies such as benchmark curves, benchmarking of like securities and bid, mean and ask evaluations.

- U.S. Agency Obligations of $78.3 million and $62.0 million as of June 30, 2017 and June 30, 2016, respectively, are classified as Level 2 of the fair value hierarchy. These investments are typically traded in the secondary market and are valued by a pricing service using available market information with processes such as matrix pricing and option adjusted spread pricing models and methodologies.

- Supranational Obligations of $6.0 million as of June 30, 2017 are classified as Level 2 of the fair value hierarchy. The District had no Supranational Obligations holdings as of June 30, 2016. These investments are typically traded in the secondary market and are valued by a pricing service using available market information with similar quality, maturity, or, use analytical models which may incorporate spreads, interest rated data and market/sector views.

- Medium Term Notes of $6.0 million and $4.0 million as of June 30, 2017 and June 30, 2016, respectively, are classified as Level 2 of the fair value hierarchy. These investments are typically traded in the secondary market and are valued by a pricing service using available market information with processes such as option adjusted spread pricing models and methodologies.

(13) GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68

Effective July 1, 2016, the District implemented GASB Statement No. 73. GASB Statement No. 73 requires additional reporting for pensions that are not within the scope of GASB Statement 68. Previously, the Preservation of Benefits pension liability was not reported on the Statements of Net Position. Please refer to note 5(b) for additional information.

The implementation of GASB Statement No. 73 resulted in a restatement of Net Position of $1,746,319, as shown below and presented as a separate line in the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended 2017.

GASB Statement No. 73
Accounting and Financial Reporting for Pensions That are Not Within Scope of GASB 68
Calculation of Prior Period Adjustment to Beginning Net Position

Description		Amount
POB Pension Liability - beginning balance of fiscal year 2016	$	2,019,887
Less application of fiscal year 2016 contributions		(273,568)
Total adjustment to 2017 beginning net position	$	1,746,319

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Required Supplementary Information (Unaudited)

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

	Measurement Date		
	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability			
Service cost	$ 7,647,969	$ 7,968,724	$ 8,387,418
Interest (includes interest on service cost)	32,102,235	30,611,374	29,357,390
Changes of benefit terms	—	—	—
Differences between expected and actual experience	(2,243,475)	4,572,336	—
Changes of assumptions	35,813,469	—	—
Benefit payments, including refunds of member contributions	(23,110,395)	(21,775,473)	(18,762,842)
Net change in total pension liability	50,209,803	21,376,961	18,981,966
Total pension liability - beginning	450,385,398	429,008,437	410,026,471
Total pension liability - ending	$ 500,595,201	$450,385,398	$429,008,437
Plan Fiduciary Net Position			
Contributions - employer	$ 14,400,000	$ 16,886,481	$ 16,595,566
Contributions - member (paid by employer)	2,422,241	—	—
Contributions - member	1,277,360	1,309,360	1,541,907
Net investment income	3,859,875	12,063,813	53,655,565
Benefit payments, including refunds of member contributions	(23,110,395)	(21,775,473)	(18,762,842)
Administrative expense	(686,932)	(691,003)	(728,497)
Net change in plan fiduciary net position	(1,837,851)	7,793,178	52,301,699
Plan fiduciary net position - beginning	369,793,790	362,000,612	309,698,913
Plan fiduciary net position - ending	$ 367,955,939	$369,793,790	$362,000,612
Net pension liability - ending	$ 132,639,262	$ 80,591,608	$ 67,007,825
Plan fiduciary net position as a percentage of the total pension liability	73.50%	82.11%	84.38%
Covered employee payroll	$ 33,512,411	$ 33,272,693	$ 34,528,283
Net pension liability as a percentage of covered employee payroll	395.79%	242.22%	194.07%

Notes to Schedule:

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

Change of Assumptions: The $35.8 million was driven by the changes in demographic and economic assumptions with the largest increase coming from changes in mortality assumption (members living longer than expected).

*Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

Source: SDCERS GASB67/68 Report with a measurement date of June 30, 2016, June 30, 2015, and June 30, 2014.

Schedule of Changes in Preservation of Benefits Liability and Related Ratios
Last Ten Fiscal Years*

	Measurement Date
	June 30, 2016
Total Pension Liability	
Service cost	$ 9,503
Interest (includes interest on service cost)	72,730
Changes of benefit terms	—
Differences between expected and actual experience	—
Changes of assumptions	296,607
Benefit payments, including refunds of member contributions	(273,568)
Net change in total pension liability	105,272
Total pension liability - beginning	2,019,887
Total pension liability - ending	$ 2,125,159
Covered employee payroll	$ 33,512,411
Total pension liability as a percentage of covered employee payroll	6.34%

Notes to Schedule:

Unlike the Defined Benefit Pension Plan, a qualified IRC Section 401(a) pension plan, the District may not accumulate assets in trust to offset Preservation of Benefits plan liabilities. Therefore the balances shown above represent total pension liability rather than net pension liability as it is shown with Defined Benefit Pension Plan.

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

Change of Assumptions: There were changes in assumption.

*Fiscal year 2017 was the first year of implementation, therefore only one year is shown.

Source: Preservation of Benefits Plan San Diego Unified Port District GASB 73 Report with a measurement date of June 30, 2016.

SAN DIEGO UNIFIED PORT DISTRICT
Required Supplementary Information (Unaudited)
Fiscal Years Ended June 30, 2017 and June 30, 2016

Schedule of Employer Pension Contributions
Last Ten Fiscal Years
(Expressed in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined/ Required contribution	$14,600	$14,400	$14,300	$13,900	$13,200	$12,600	$11,500	$ 7,200	$ 7,300	$ 6,900
Contributions in relation to the actuarially determined contribution	14,600	14,400	14,300	13,900	13,200	12,600	11,501	7,201	7,340	6,900
Contribution deficiency/ (excess)	$ —	$ —	$ —	$ —	$ —	$ —	$ (1)	$ (1)	$ (40)	$ —
Covered-employee payroll	$33,685	$33,512	$33,273	$34,528	$35,873	$34,632	$39,165	$40,370	$38,635	$37,160
Contributions as a percentage of covered-employee payroll	43.34%	42.97%	42.98%	40.26%	36.80%	36.38%	29.37%	17.84%	19.00%	18.57%

Notes to Schedule:

Valuation date	June 30, 2015
Timing	Actuarially determined contributions are calculated based on the actuarial valuation performed at the beginning of the prior fiscal year.

Key Methods and Assumptions Used to Determine Contributions (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	7.25%
Amortization growth rate	3.30%
Salary increases	3.30% 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, 2017 can be found in the June 30, 2015 actuarial valuation report.

Source: SDCERS GASB 67/68 Report with a measurement date of June 30, 2016

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, 2012	$ —	$ 90,510	$ (90,510)	0.0%	$ 41,099	220.2%
July 1, 2014	$ —	$ 94,342	$ (94,342)	0.0%	$ 40,275	234.2%
July 1, 2016	$ —	$ 99,507	$ (99,507)	0.0%	$ 44,911	221.6%

STATISTICAL SECTION

(UNAUDITED)

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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.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive Annual Financial Reports and underlying records for the relevant year.

Net Position – Last Ten Fiscal Years

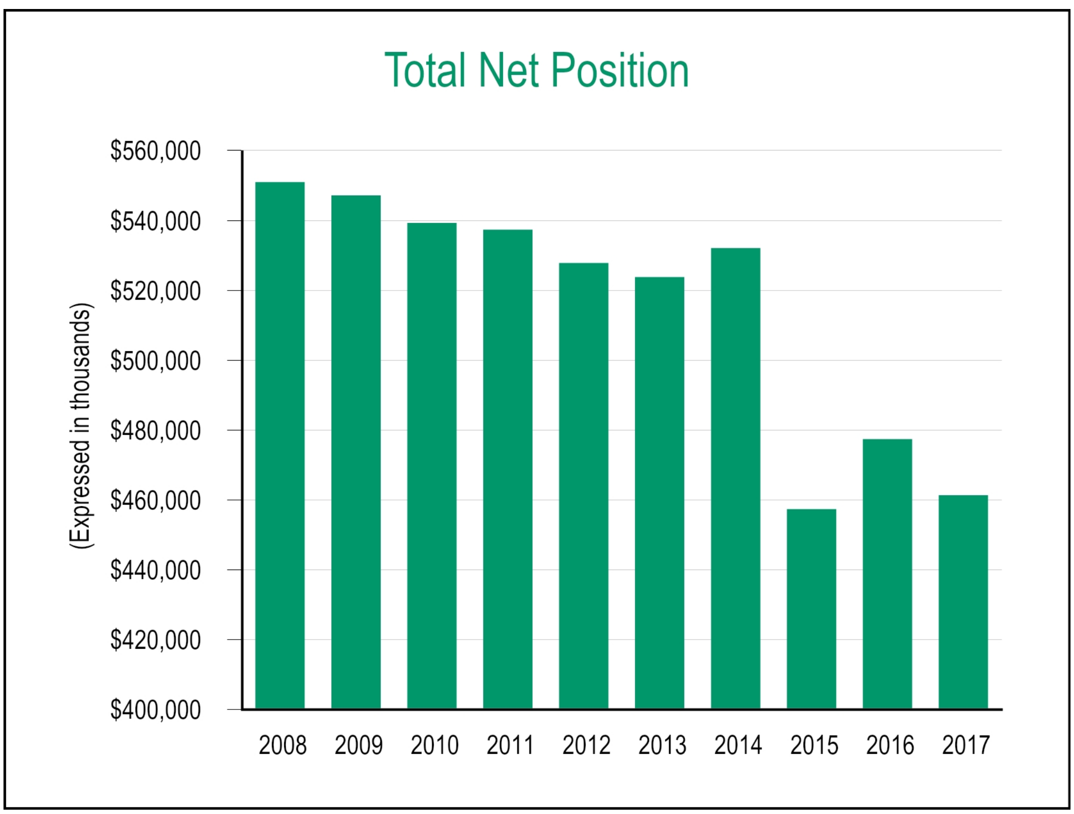
(Expressed in thousands)

Fiscal Year	Net Investments in Capital Assets	Restricted	Unrestricted	Total Net Position
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
2016	504,229	7,357	(34,217)	477,369
2017[3]	502,478	8,326	(49,488)	461,316

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

[2]In 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.

[3]In 2017, the District's unrestricted net position was ($49.5) million including a $24.7 million increase from an accounting adjustment for pension expense in accordance with GASB Statement No. 68 and a restatement of $1.7 million for GASB Statement No. 73.



Changes in Net Position – Last Ten Fiscal Years

(Expressed in thousands)

	2008	2009	2010	2011	2012[1]	2013[1]	2014	2015[2]	2016	2017[3]
Operating revenues:										
Real Estate operations	$ 87,181	$ 78,536	$ 71,560	$ 80,904	$ 79,782	$ 82,604	$ 89,282	$ 95,940	$ 102,747	$ 96,430
Port as a Service	—	—	—	—	—	—	—	—	—	15,227
Maritime operations	42,520	40,694	37,604	34,033	33,090	33,469	34,480	35,265	37,365	39,214
Harbor Police	12,289	12,464	12,934	13,190	15,639	15,313	17,203	14,729	16,835	16,085
Other operating revenues	2,140	2,816	2,511	3,240	2,225	3,884	4,807	3,631	3,340	3,409
Total operating revenues	144,130	134,510	124,609	131,367	130,736	135,270	145,772	149,565	160,287	170,365
Operating expenses:										
Direct expenses:										
Real Estate operations	21,897	21,191	26,704	26,512	34,656	33,186	31,280	27,782	27,623	26,400
Port as a Service	—	—	—	—	—	—	—	—	—	6,184
Maritime operations	23,328	23,243	22,338	19,031	20,612	20,448	21,573	18,002	18,334	17,208
Harbor Police	31,049	32,974	33,043	35,407	31,458	33,756	32,623	31,081	35,007	39,201
Other operating expenses	8,442	11,732	2,502	1,830	75	1,123	5,151	9,685	8,267	35,858
Depreciation and amortization	17,412	18,117	18,511	19,267	19,096	18,935	19,597	21,218	22,721	23,447
General and administrative expenses	27,867	31,428	30,902	31,357	34,600	35,951	30,729	31,561	33,949	40,040
Total operating expenses	129,995	138,685	134,000	133,404	140,497	143,399	140,953	139,329	145,901	188,338
Income/(loss) from operations	14,135	(4,175)	(9,391)	(2,037)	(9,761)	(8,129)	4,819	10,236	14,386	(17,973)
Nonoperating revenues/(expenses):										
Interest income	8,319	5,518	2,672	1,678	1,127	627	694	700	759	1,346
Settlement income	36	1,166	128	2,623	5	6	356	593	1,425	1,925
Net inc/(dec) in the fair value of invest.	(19)	1,117	(259)	(392)	(349)	(206)	166	(37)	92	(389)
Interest expense	(4,834)	(4,702)	(4,576)	(4,564)	(4,396)	(4,206)	(3,998)	(3,816)	(3,518)	(3,398)
Financial assistance other	(968)	(5,983)	(206)	(2,163)	(3,330)	—	—	—	(10)	(579)
Convention Center expansion support	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	—	—	—
Other nonoperating expenses	(390)	(1,043)	(456)	(205)	(80)	(78)	(96)	(11,706)	(433)	(782)
Other nonoperating revenues	6,458	3,371	3,759	4,741	4,007	986	1,281	8,359	5,615	3,085
Nonoperating income/(loss)	4,102	(5,056)	(3,438)	(2,782)	(7,516)	(7,371)	(6,097)	(5,907)	3,930	1,208
Capital grants and contributions	5,425	5,347	4,990	2,930	8,339	11,443	9,564	4,781	1,662	2,458
Change in net position	23,662	(3,884)	(7,839)	(1,889)	(8,938)	(4,057)	8,286	9,110	19,978	(14,307)
Beginning net position	527,286	550,948	547,061	539,222	537,333	527,784	523,727	532,013	457,391	477,369
Restatement	—	(3)	—	—	(611)	—	—	(83,732)	—	(1,746)
Ending net position	$ 550,948	$ 547,061	$ 539,222	$ 537,333	$ 527,784	$ 523,727	$ 532,013	$ 457,391	$ 477,369	$ 461,316

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

[2]In 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.

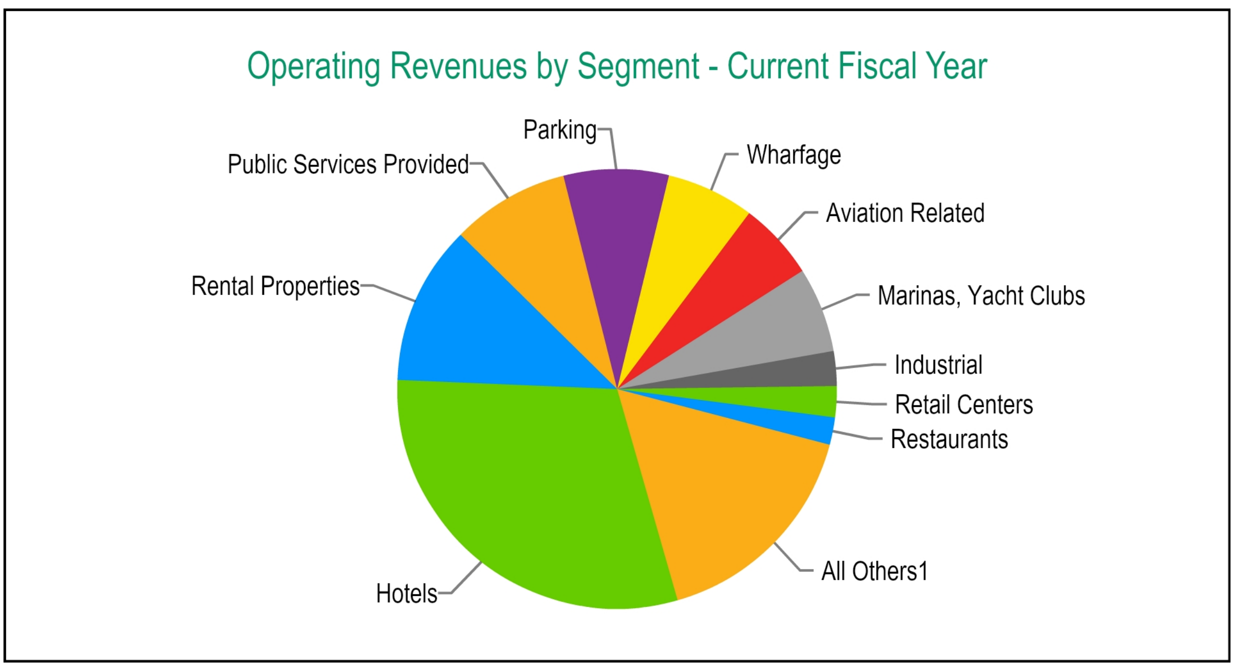
[3]In 2017, the District implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The implementation of GASB 73 restates the net position for the affected reporting units to give retroactive effect. Other operating expenses includes a $24.7 million increase from an accounting adjustment for pension expense in accordance with GASB Statement No. 68.

Operating Revenues by Segment – Last Ten Fiscal Years

(Expressed in thousands)

Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hotels[1]	$ 37,484	$ 32,323	$ 25,125	$ 30,866	$ 32,824	$ 33,667	$ 37,700	$ 40,739	$ 45,198	$ 53,818
Rental Properties	15,518	18,141	15,499	15,585	15,439	16,191	17,101	16,900	18,321	20,961
Public Services Provided[2]	11,324	11,550	11,567	12,130	14,200	13,922	15,309	13,427	15,610	15,534
Parking	10,324	8,989	8,690	7,303	7,532	8,598	10,082	12,151	13,431	13,806
Wharfage	13,687	9,839	9,723	9,755	10,867	11,270	11,535	12,078	12,223	11,564
Aviation Related	11,338	11,488	11,504	11,503	11,564	11,053	10,575	10,469	10,420	10,184
Marinas, Yacht Clubs[3]	8,308	8,735	8,116	8,099	8,736	9,216	8,529	9,482	10,245	11,229
Industrial	4,722	4,270	5,379	10,439	6,008	6,023	5,919	5,579	4,452	4,541
Retail Centers	3,126	3,119	2,867	3,053	3,491	3,604	3,815	3,928	4,009	4,114
Restaurants[4]	2,459	2,540	2,627	2,560	2,316	2,326	2,888	3,097	3,332	3,568
Dockage	3,175	2,676	2,553	2,404	1,967	1,938	1,920	2,083	2,393	2,152
Passenger Fees	6,076	4,964	4,756	2,422	1,554	1,289	1,133	1,167	1,264	1,390
Citations	300	284	307	322	373	395	794	1,144	1,009	1,027
Passenger Security Charges	3,238	3,078	3,066	1,841	1,174	989	999	1,006	804	997
Piers & Floats	107	93	84	86	128	89	97	111	150	187
Grant Revenue	435	489	932	628	873	846	959	—	—	—
Other	12,509	11,932	11,814	12,371	11,690	13,854	16,417	16,204	17,426	15,293
Total	$144,130	$134,510	$124,609	$131,367	$130,736	$135,270	$145,772	$149,565	$160,287	$170,365

[1]All hotel leases include restaurants and six hotel leases include marinas.
[2]Includes police services to San Diego County Regional Airport Authority (SDCRAA).
[3]Not included are marinas under hotel operations or under a restaurant lease.
[4]The District has nine direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.



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

Ten Largest Customers – Current Fiscal Year and Nine Years Ago

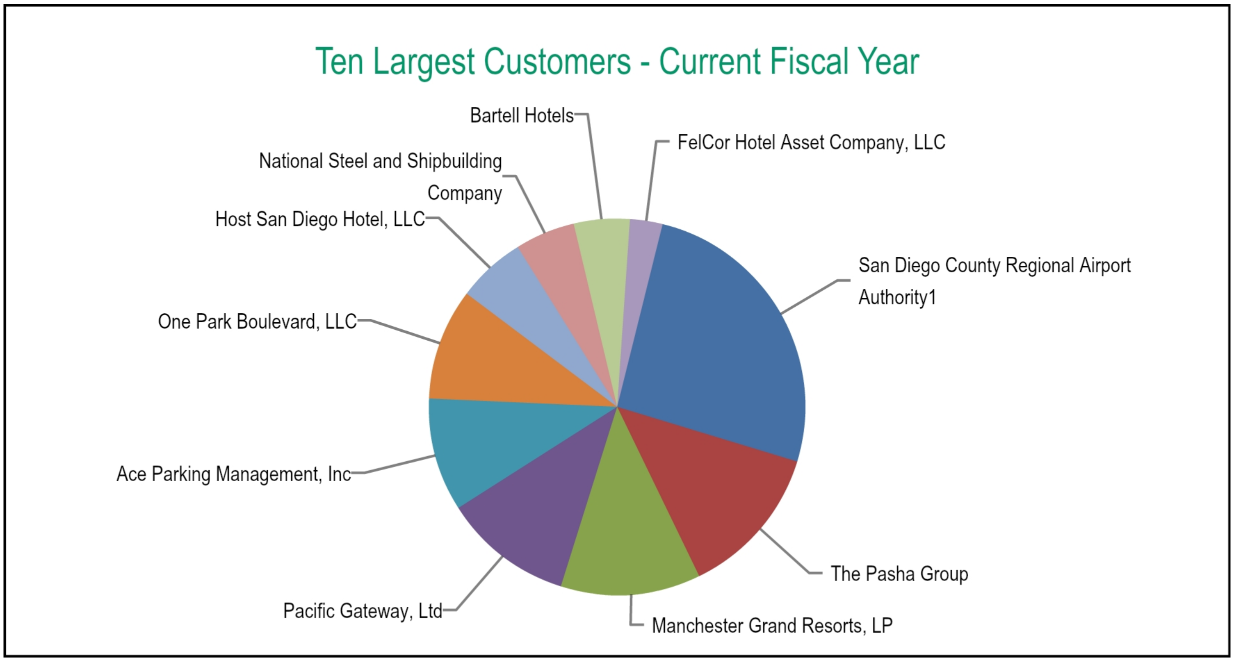
(Expressed in thousands)

Customer	2008	%
San Diego County Regional Airport Authority[1]	$ 24,355	14.8%
The Pasha Group	12,045	7.3%
Manchester Grand Resorts, LP	10,772	6.6%
Pacific Gateway, Ltd	8,917	5.4%
Carnival Cruise Lines, Inc.	6,829	4.2%
Ace Parking Management, Inc	6,409	3.9%
Host San Diego Hotel, LLC	6,039	3.7%
Holland America Line, Inc	3,334	2.0%
Bartell Hotels	3,267	2.0%
Solar Turbines Incorporated	3,008	1.8%
Total Ten Largest Customers	84,975	51.7%
Other	79,371	48.3%
Total Operating Revenues	$ 164,346	100.0%

[1]Includes reimbursements for airport police services.

Customer	2017	%
San Diego County Regional Airport Authority[1]	$ 27,215	15,974.5%
The Pasha Group	13,836	8,121.4%
Manchester Grand Resorts, LP	12,689	7,448.1%
Pacific Gateway, Ltd	11,748	6,895.8%
Ace Parking Management, Inc	10,266	6,025.9%
One Park Boulevard, LLC	10,078	5,915.5%
Host San Diego Hotel, LLC	6,214	3,647.5%
National Steel and Shipbuilding Company	5,421	3,182.0%
Bartell Hotels	5,058	2,968.9%
FelCor Hotel Asset Company, LLC	2,963	1,739.2%
Total Ten Largest Customers	105,488	61.9%
Other	64,877	38,081.2%
Total Operating Revenues	$ 170,365	100.0%

[1]Includes reimbursements for airport police services.



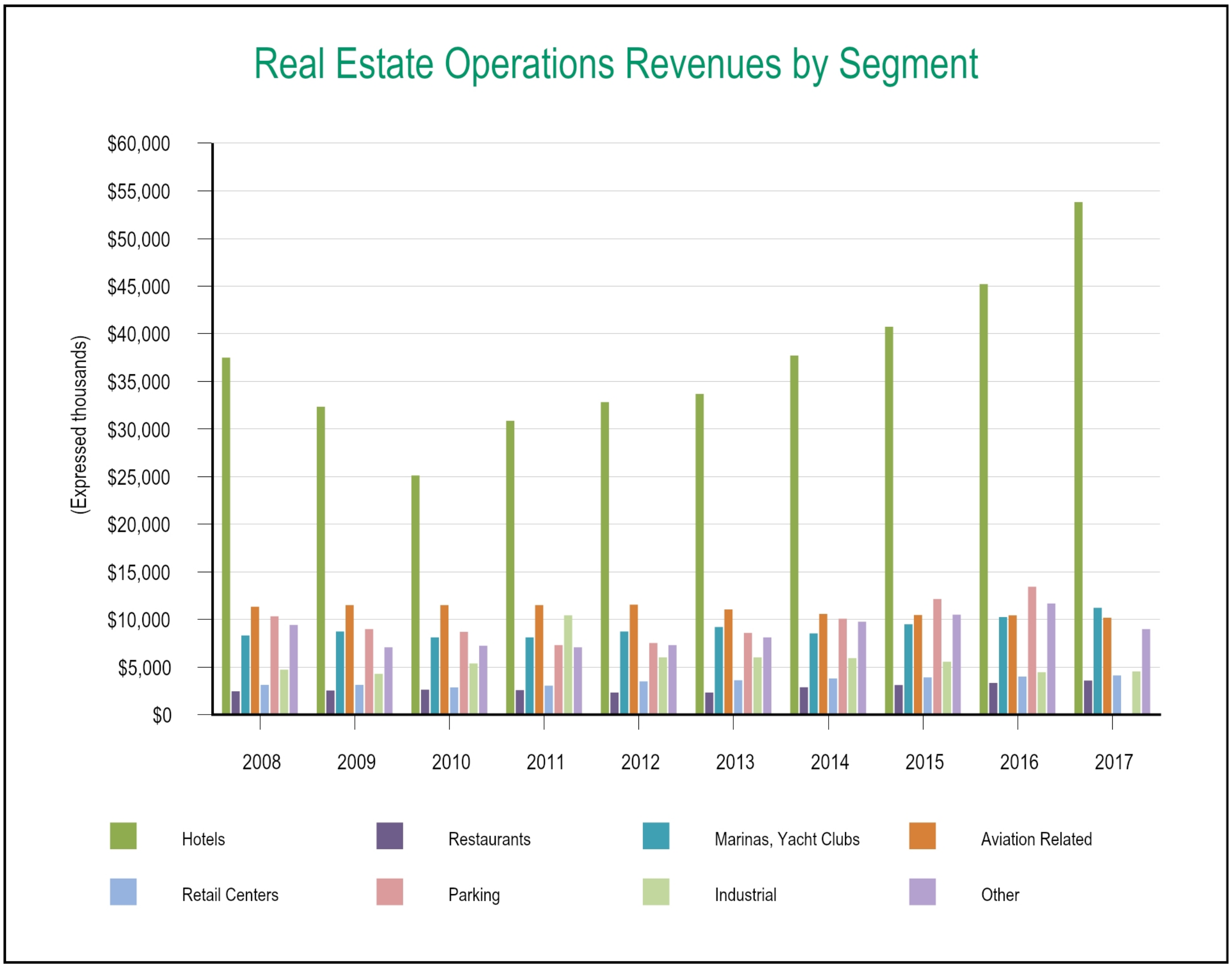
[1]Includes reimbursements for airport police services.

Real Estate Operations Revenues by Segment – Last Ten Fiscal Years

(Expressed in thousands)

Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hotels[1]	$ 37,484	$ 32,323	$ 25,125	$ 30,866	$ 32,824	$ 33,667	$ 37,700	$ 40,739	$ 45,198	$ 53,818
Restaurants[2]	2,459	2,540	2,627	2,560	2,316	2,326	2,888	3,097	3,332	3,568
Marinas, Yacht Clubs[3]	8,308	8,735	8,116	8,099	8,736	9,216	8,529	9,482	10,245	11,229
Aviation Related	11,338	11,488	11,504	11,503	11,564	11,053	10,575	10,469	10,420	10,184
Retail Centers	3,126	3,119	2,867	3,053	3,491	3,604	3,815	3,928	4,009	4,114
Parking	10,324	8,989	8,690	7,303	7,532	8,598	10,082	12,151	13,431	—
Industrial	4,722	4,270	5,379	10,439	6,008	6,023	5,919	5,579	4,452	4,541
Other	9,420	7,072	7,252	7,081	7,311	8,117	9,774	10,495	11,660	8,976
Total	$ 87,181	$ 78,536	$ 71,560	$ 80,904	$ 79,782	$ 82,604	$ 89,282	$ 95,940	$102,747	$ 96,430

[1]All hotel leases include restaurants and six hotel leases include marinas.
[2]The District has nine direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.
[3]Not included are marinas under hotel operations or under a restaurant lease.



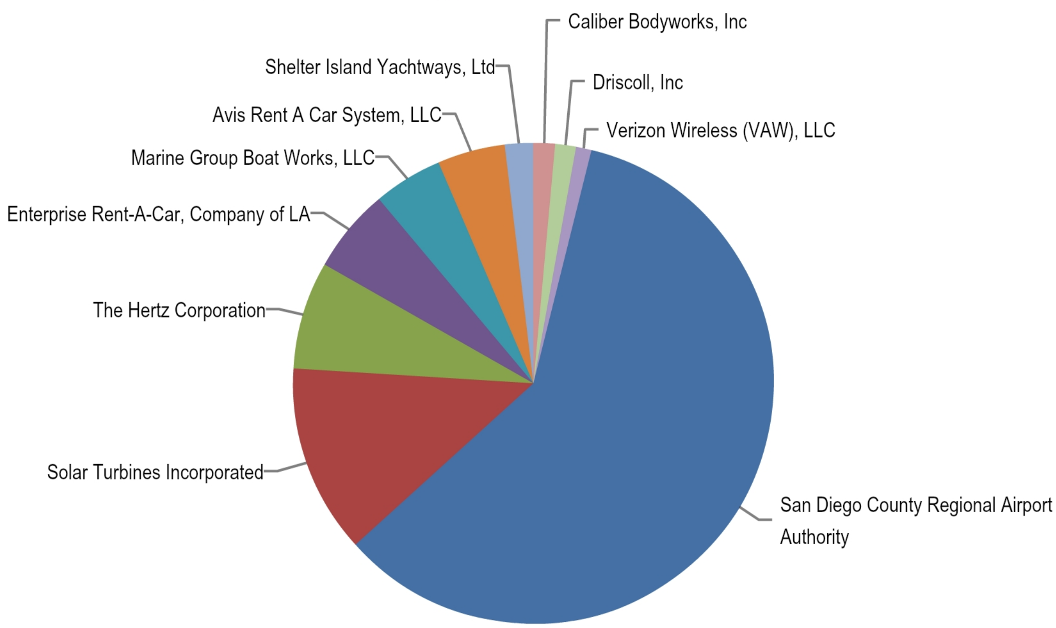
Real Estate Operations Ten Largest Fixed Rent Tenants –
Current Fiscal Year and Nine Years Ago

(Expressed in thousands)

Tenant	2008	%
San Diego County Regional Airport Authority	$ 11,338	52.3%
Solar Turbines Incorporated	3,008	13.9%
The Hertz Corporation	1,078	5.0%
Vanguard Car Rental USA Inc. dba National Car Rental	788	3.6%
Newport Beach Sales & Leasing dba Budget Rent-A-Car	723	3.3%
Avis Rent A Car System, LLC	702	3.2%
Metropolitan Life Insurance Company dba Park and Ride	444	2.0%
San Diego Yacht Club	362	1.7%
Shelter Island Yachtways, Ltd	270	1.2%
Marine Group Boat Works, LLC	253	1.2%
Total Ten Largest Fixed Rent Tenants	18,966	87.6%
Other Fixed Rent	2,695	12.4%
Total Real Estate Operations Fixed Rent	$ 21,661	100.0%

Tenant	2017	%
San Diego County Regional Airport Authority	$ 10,178	51.7%
Solar Turbines Incorporated	2,178	11.1%
The Hertz Corporation	1,241	6.3%
Enterprise Rent-A-Car, Company of LA	970	4.9%
Marine Group Boat Works, LLC	796	4.0%
Avis Rent A Car System, LLC	780	4.0%
Shelter Island Yachtways, Ltd	325	1.7%
Caliber Bodyworks, Inc	249	1.3%
Driscoll, Inc	240	1.2%
Verizon Wireless (VAW), LLC	180	0.8%
Total Ten Largest Fixed Rent Tenants	17,137	87.0%
Other Fixed Rent	2,551	13.0%
Total Real Estate Operations Fixed Rent	$ 19,688	100.0%

Real Estate Operations Ten Largest Fixed Rent Tenants - Current Fiscal Year



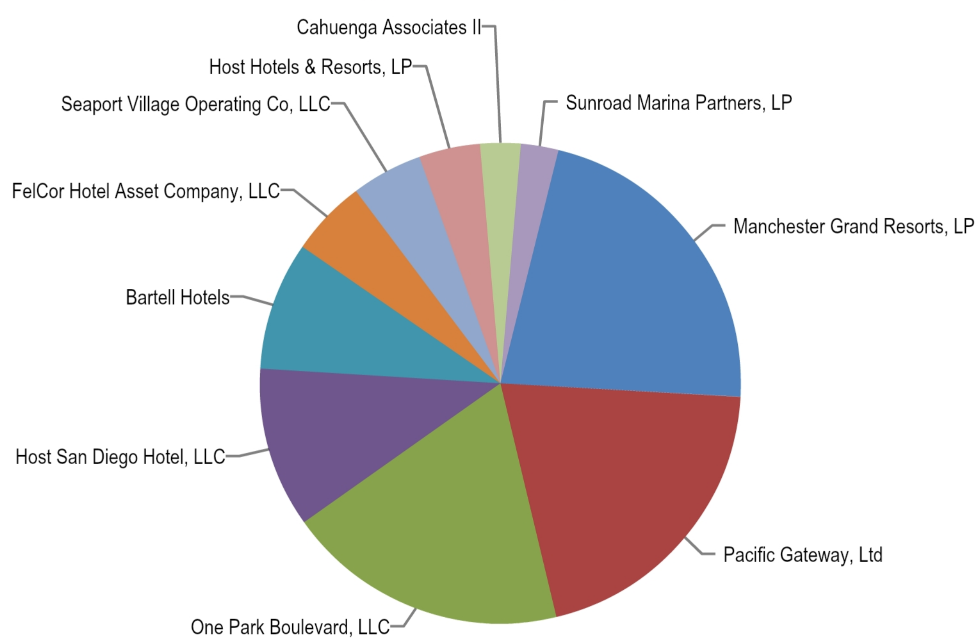
Real Estate Operations Ten Largest Percentage Rent Tenants -
Current Fiscal Year and Nine Years Ago

(Expressed in thousands)

Tenant	2008	%
Manchester Grand Resorts, LP	$ 10,772	20.1%
Pacific Gateway, Ltd	8,917	16.7%
Host San Diego Hotel, LLC	6,039	11.3%
Bartell Hotels	3,213	6.0%
FelCor Hotel Asset Company, LLC	2,712	5.1%
Seaport Village Operating Co, LLC	2,025	3.8%
Host Hotels & Resorts, LP	1,921	3.6%
Cahuenga Associates II	1,481	2.8%
Sunroad Marina Partners, LP	1,280	2.4%
Hornblower Yachts, Inc	1,152	2.2%
Total Ten Largest Percentage Rent Tenants	39,512	73.8%
Other Percentage Rent	14,031	26.2%
Total Real Estate Operations Percentage Rent	$ 53,543	100.0%

Tenant	2017	%
Manchester Grand Resorts, LP	$ 12,689	16.8%
Pacific Gateway, Ltd	11,738	15.5%
One Park Boulevard, LLC	10,922	14.4%
Host San Diego Hotel, LLC	6,211	8.2%
Bartell Hotels	4,988	6.6%
FelCor Hotel Asset Company, LLC	2,956	3.9%
Seaport Village Operating Co, LLC	2,761	3.6%
Host Hotels & Resorts, LP	2,370	3.1%
Cahuenga Associates II	1,560	2.1%
Sunroad Marina Partners, LP	1,464	1.9%
Total Ten Largest Percentage Rent Tenants	57,659	76.2%
Other Percentage Rent	18,043	23.8%
Total Real Estate Operations Percentage Rent	$ 75,702	100.0%

Real Estate Operations Ten Largest Percentage Rent Tenants - Current Fiscal Year

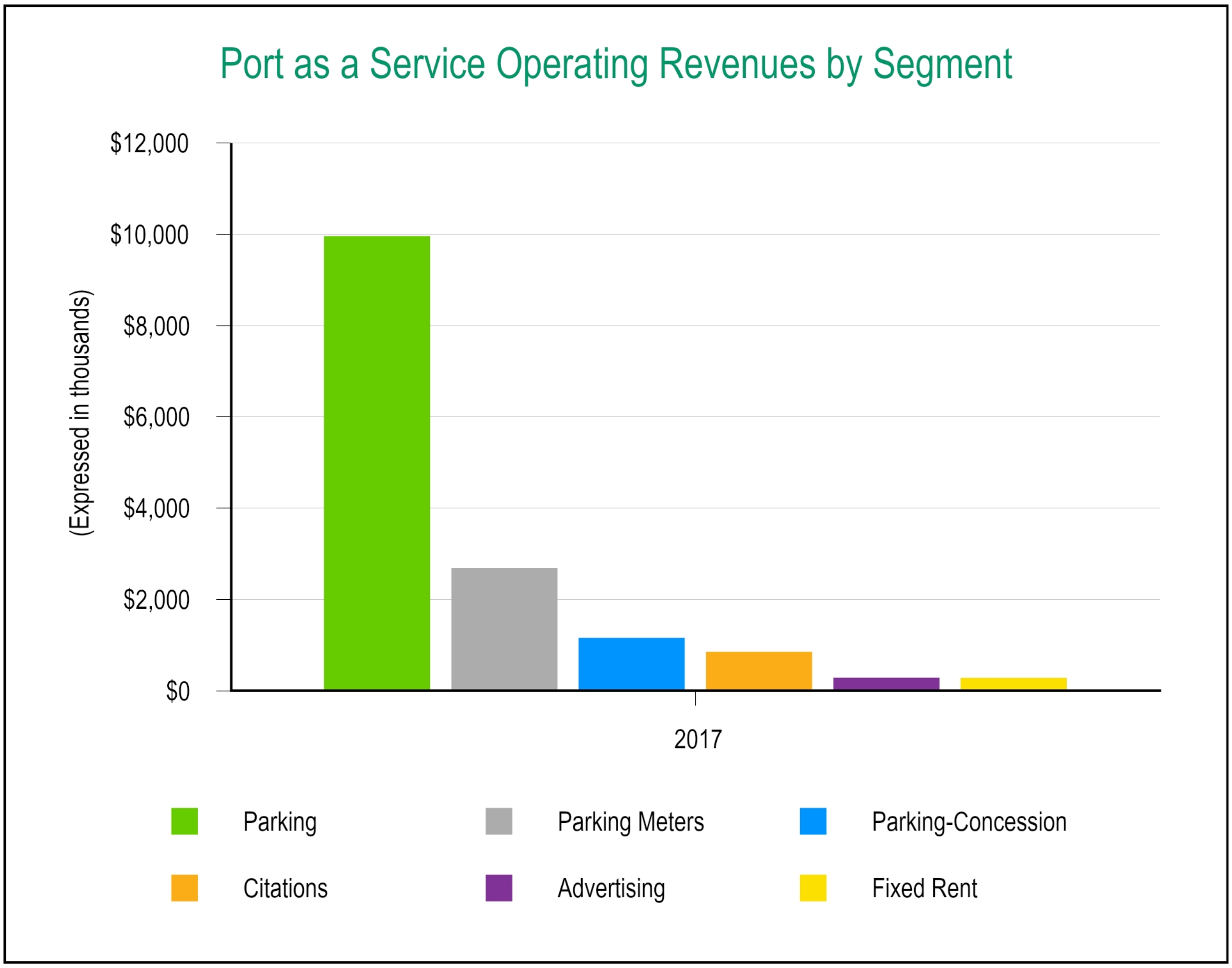


Port as a Service Revenues by Segment – Last Ten Fiscal Years*

(Expressed in thousands)

Segment		2017
Parking	$	9,960
Parking Meters		2,692
Parking-Concession		1,154
Citations		852
Advertising		286
Fixed Rent		283
	$	15,227

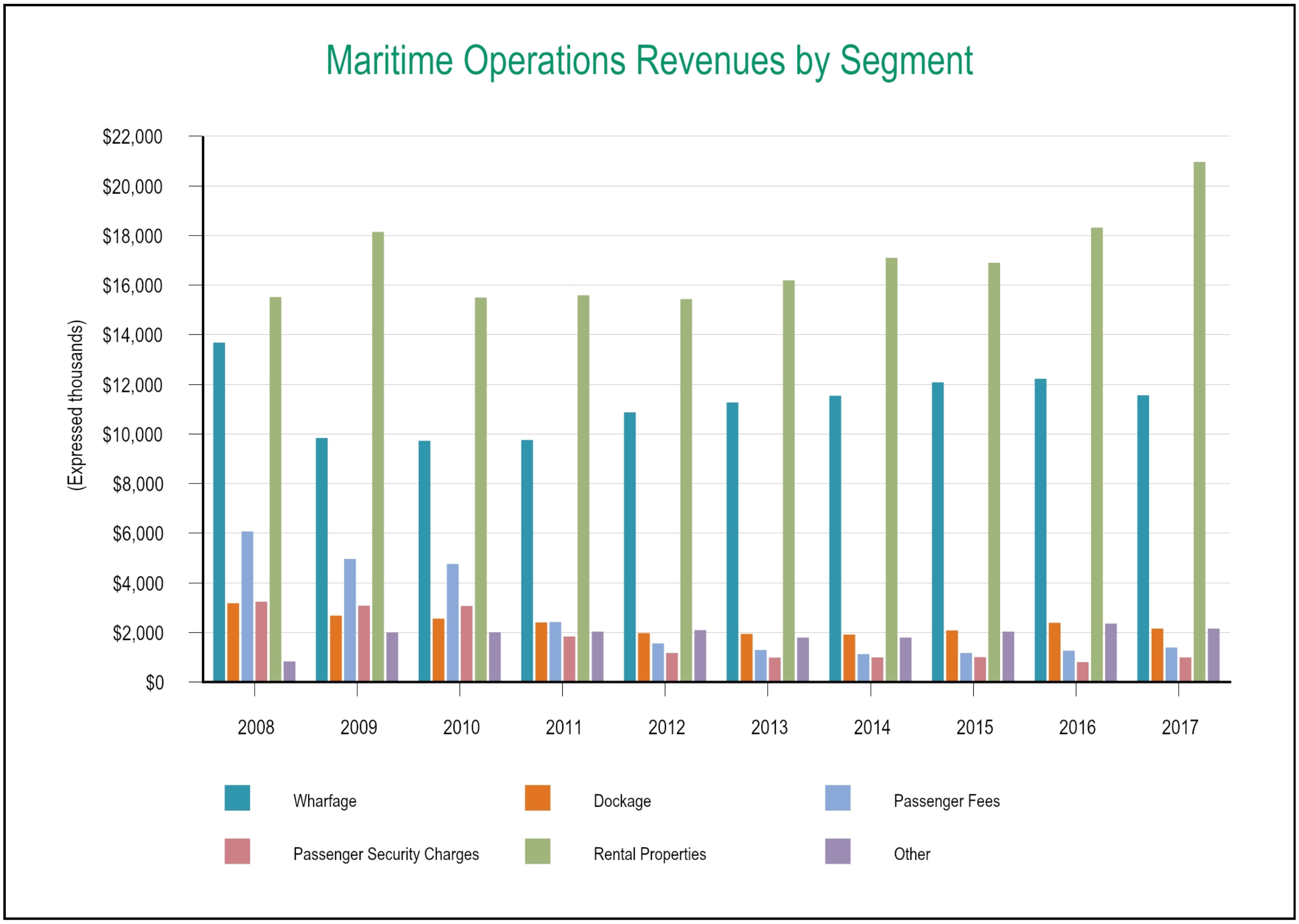
*Fiscal Year 2017 was the first year of Port as a Service, therefore only one year is shown.



Maritime Operations Revenues by Segment – Last Ten Fiscal Years

(Expressed in thousands)

Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Berths:										
Wharfage	$ 13,686	$ 9,840	$ 9,723	$ 9,755	$ 10,867	$ 11,270	$ 11,535	$ 12,078	$ 12,223	$ 11,564
Dockage	3,175	2,676	2,553	2,404	1,967	1,938	1,920	2,083	2,393	2,152
Passenger Fees	6,076	4,964	4,756	2,422	1,554	1,289	1,133	1,167	1,264	1,390
Passenger Security Charges	3,238	3,078	3,066	1,841	1,174	989	999	1,006	804	997
Rental Properties	15,480	18,141	15,499	15,585	15,439	16,191	17,101	16,900	18,321	20,961
Other	864	1,996	2,007	2,026	2,089	1,792	1,792	2,031	2,361	2,151
Total	$ 42,519	$ 40,695	$ 37,604	$ 34,033	$ 33,090	$ 33,469	$ 34,480	$ 35,265	$ 37,366	$ 39,215

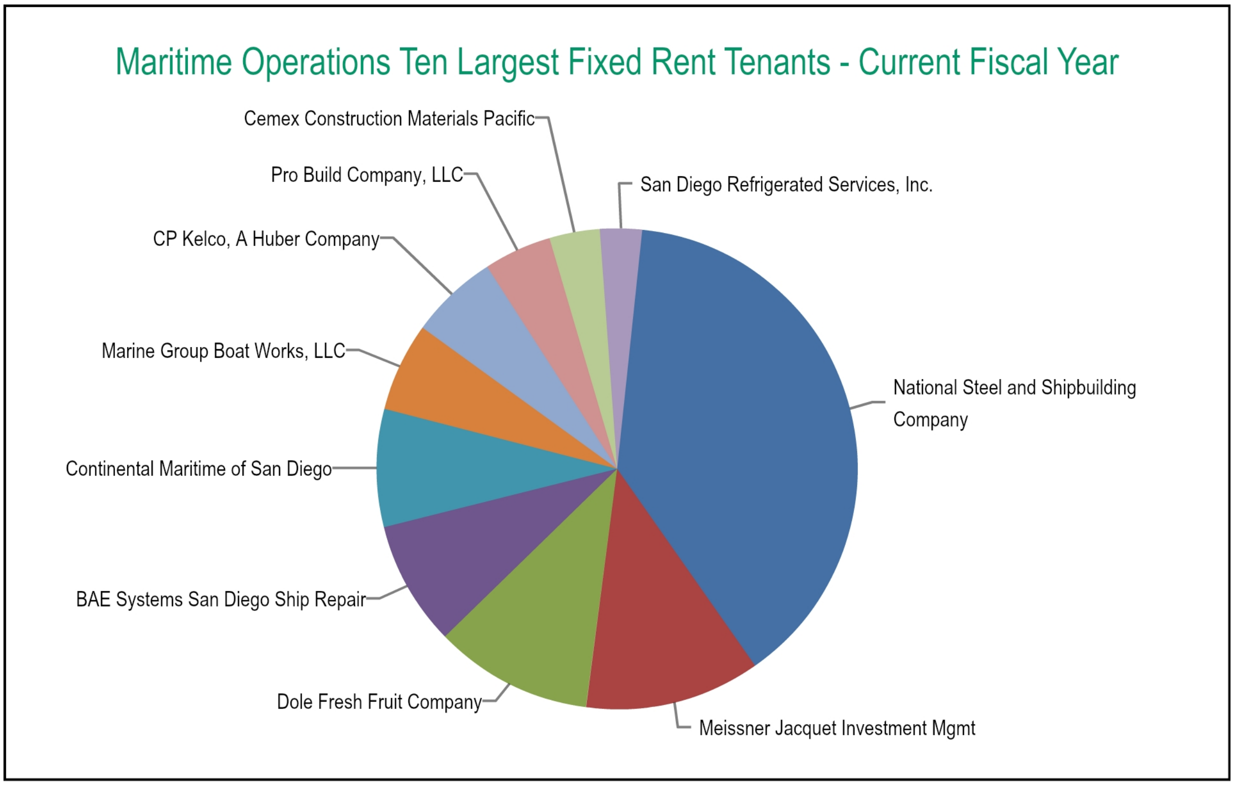


Maritime Operations Ten Largest Fixed Rent Tenants –
Current Fiscal Year and Nine Years Ago

(Expressed in thousands)

Tenant	2008	%
National Steel and Shipbuilding Company	$ 2,897	21.5%
Meissner Jacquet Investment Management	2,224	16.5%
Dole Fresh Fruit Company	1,575	11.7%
Dixieline Lumber Company	1,209	9.0%
Continental Maritime of San Diego	622	4.6%
Knight & Carver Yachtcenter, Inc.	616	4.6%
CP Kelco, A Huber Company	606	4.5%
BAE Systems San Diego Ship Repair	547	4.1%
Cemex Construction Materials Pacific	484	3.6%
Weyerhaeuser Company	280	2.1%
Total Ten Largest Fixed Rent Tenants	11,060	81.9%
Other Fixed Rent	2,443	18.1%
Total Maritime Operations Fixed Rent	$ 13,503	100.0%

Tenant	2017	%
National Steel and Shipbuilding Company	$ 5,389	33.7%
Meissner Jacquet Investment Mgmt	1,646	10.3%
Dole Fresh Fruit Company	1,485	9.3%
BAE Systems San Diego Ship Repair	1,170	7.3%
Continental Maritime of San Diego	1,107	6.9%
Marine Group Boat Works, LLC	833	5.2%
CP Kelco, A Huber Company	825	5.2%
Pro Build Company, LLC	636	4.0%
Cemex Construction Materials Pacific	473	3.0%
San Diego Refrigerated Services, Inc.	394	2.5%
Total Ten Largest Fixed Rent Tenants	13,959	87.2%
Other Fixed Rent	2,049	12.8%
Total Maritime Operations Fixed Rent	$ 16,008	100.0%

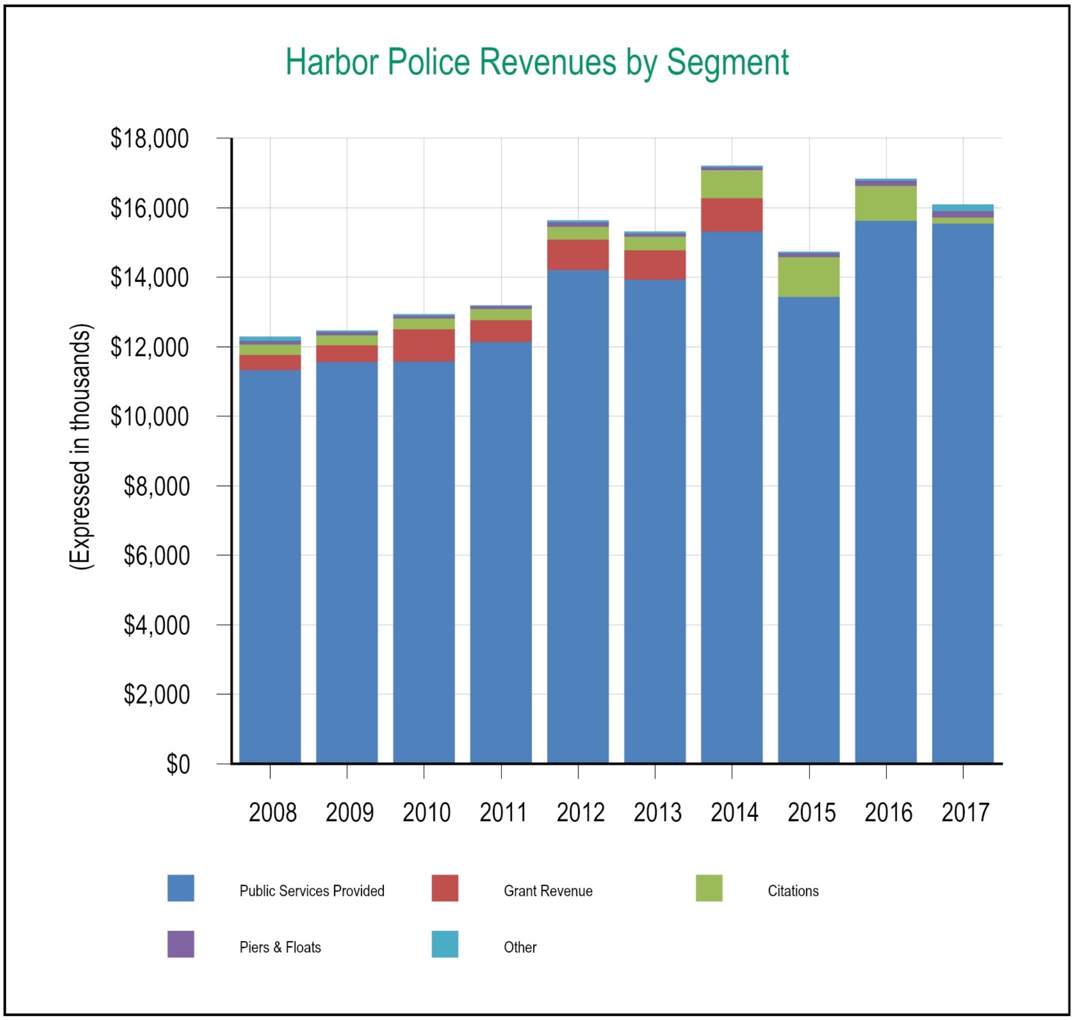


Harbor Police Revenues by Segment - Last Ten Fiscal Years

(Expressed in thousands)

Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Services Provided[1]	$ 11,324	$ 11,550	$ 11,567	$ 12,130	$ 14,200	$ 13,922	$ 15,309	$ 13,427	$ 15,610	$ 15,534
Grant Revenue[2]	435	489	932	628	873	846	959	—	—	—
Citations[3]	300	284	307	322	373	395	794	1,144	1,009	175
Piers & Floats	107	93	84	86	128	89	97	111	150	187
Other	123	48	44	24	65	61	44	47	66	189
Total	$ 12.289	$ 12,464	$ 12,934	$ 13,190	$ 15,639	$ 15,313	$ 17,203	$ 14,729	$ 16,835	$ 16,085

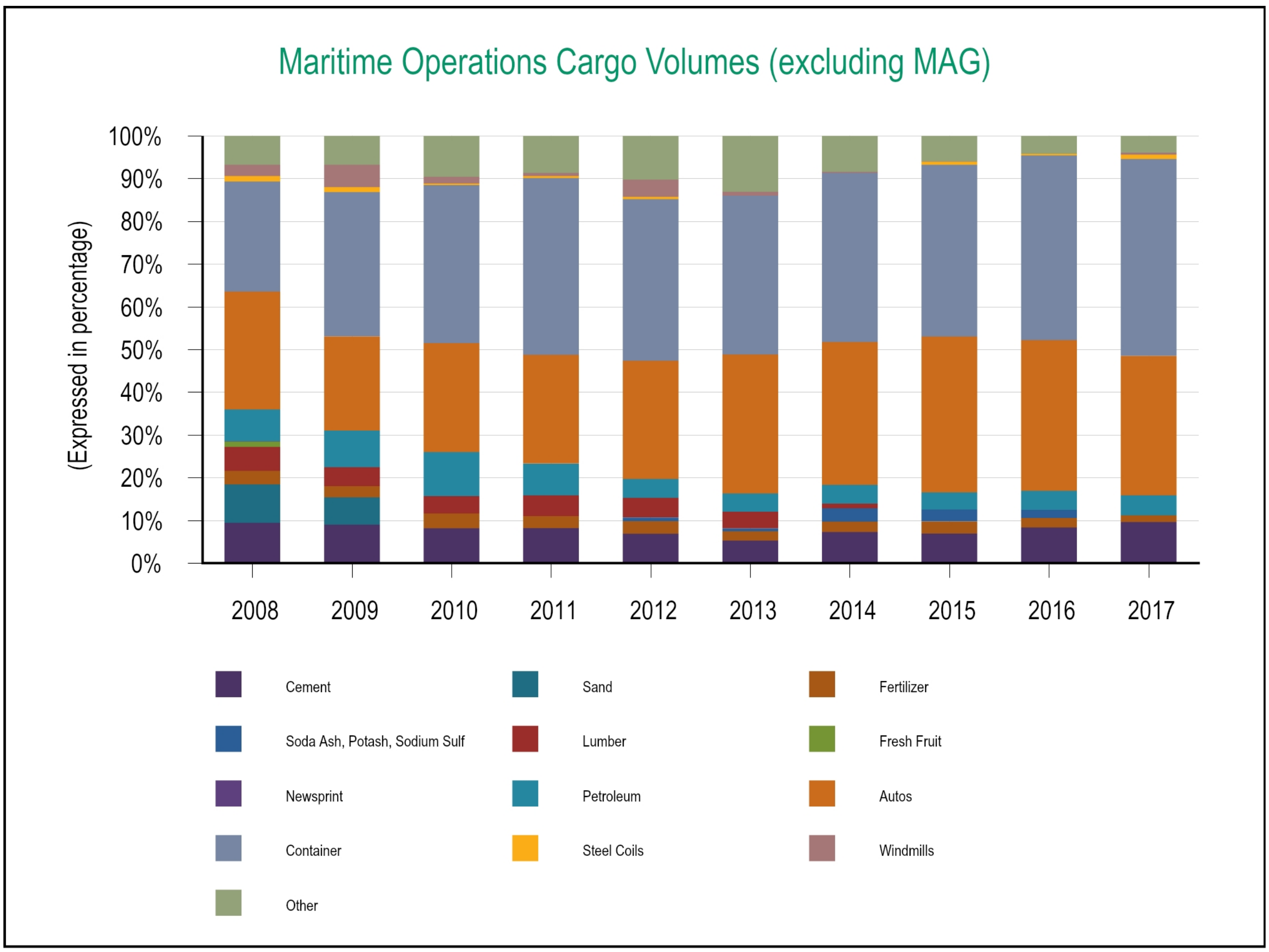
[1]Police services provided to SDCRAA (excluding G&A cost reimbursements).
[2]Grant revenue was reclassified to nonoperating revenues in fiscal year 2015.
[3]Parking Citations was moved to Port as a Service - Parking department in fiscal year 2017.



Maritime Operations Cargo Volumes – Last Ten Fiscal Years

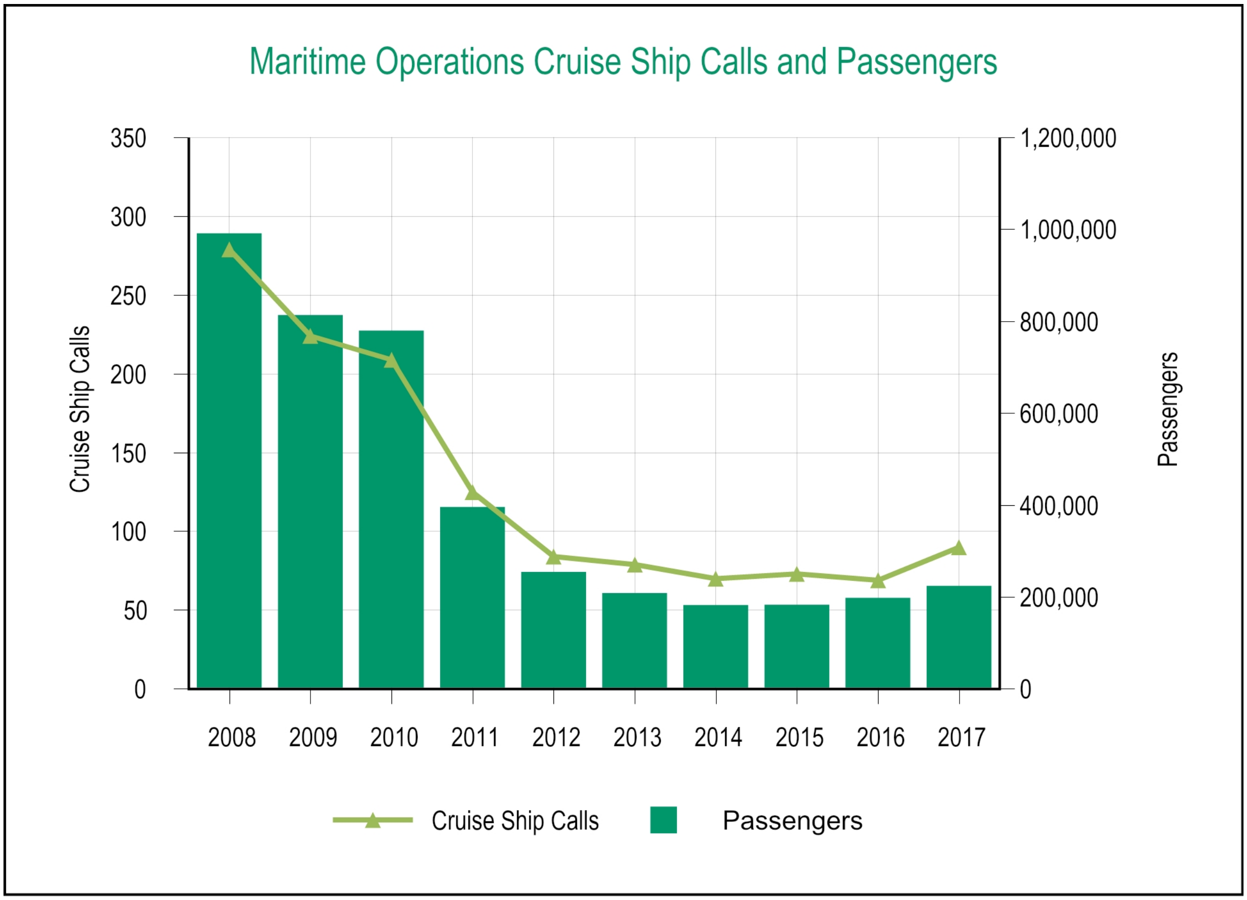
(Expressed in metric tons)

Cargo	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cement	227,423	160,590	127,679	122,233	115,962	88,618	121,218	123,646	158,709	176,772
Sand	215,501	114,537	—	—	—	—	—	—	—	—
Fertilizer	77,470	46,849	54,478	41,494	50,917	36,503	41,304	50,279	42,244	29,175
Soda Ash, Potash, Sodium Sulf	—	—	—	—	14,928	10,897	51,570	49,589	36,359	—
Lumber	134,732	80,146	63,994	72,645	77,188	65,344	17,701	—	—	—
Fresh Fruit	29,870	—	—	—	—	—	—	—	—	—
Newsprint	2,283	—	—	—	—	—	—	—	—	—
Petroleum	178,078	153,589	162,225	111,078	75,806	71,822	74,003	71,582	84,044	86,919
Autos	664,870	394,569	401,375	379,821	468,786	545,001	556,954	649,725	670,847	601,246
Container	618,830	604,841	580,822	617,289	640,586	621,921	660,586	717,085	823,560	847,906
Steel Coils	31,358	20,400	5,546	6,732	9,849	43	—	13,253	6,811	19,604
Windmills	63,191	94,101	25,106	10,763	68,541	15,360	3,942	627	37	8,235
Other	162,002	121,384	150,015	129,487	172,800	219,577	140,966	106,759	79,333	72,244
Total Cargo	2,405,608	1,791,006	1,571,240	1,491,542	1,695,363	1,675,086	1,668,244	1,782,545	1,901,944	1,842,101
Minimum Annual Guarantee (MAG)	625,322	1,028,467	1,306,058	1,338,920	1,224,974	1,007,575	996,412	953,280	971,669	947,903
Total Cargo with MAG	3,030,930	2,819,473	2,877,298	2,830,462	2,920,337	2,682,661	2,664,656	2,735,825	2,873,613	2,790,004

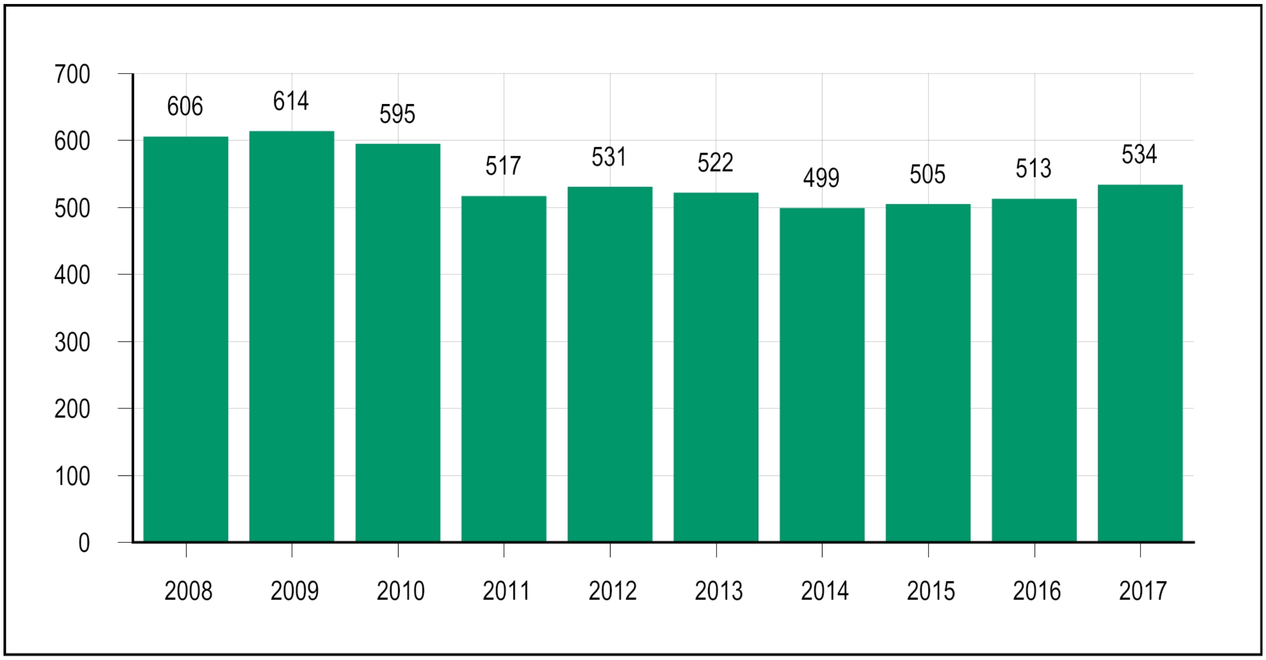


Maritime Operations Cruise Ship Calls and Passengers – Last Ten Fiscal Years

Fiscal Year	Cruise Ship Calls	Passengers
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
2016	69	198,399
2017	90	224,453



District Employee Headcount – Last Ten Fiscal Years



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

Total Land and Water	
District's Jurisdiction:	
Land - Estimated (in acres)	2,464
Water - Estimated (in acres)	3,534
Leased Area:	
Leased Land - Estimated (in square feet)	74,257,546
Leased Water- Estimated (in square feet)	32,834,386
Leased Buildings - Estimated (in square feet)	5,641,680
Leased Piers - Estimated (in square feet)	73,052
Public Safety	
Stations	1
Sub-stations	3
Sworn Officers	132
Number of Calls	60,594
Traffic Citations	3,994
Parking Citations	36,309
Arrests	2,650
Number of Parks	**22**
Total Acreage	148
Parking (number of short-term and long-term spaces)	
Navy Pier	386
B Street Pier	189
Hilton Garage	1,859
Convention Center Garage	1,834
Imperial Beach	67
Metered (throughout District)	1,039
Pay Stations (Spanish Landing)	219
Unmetered (throughout District)	2,562
Tenant Operated (TUOPs) (long-term spaces):	
Harbor Island Lot	620
Pacific Highway Corridor Lots	1,137
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)	325,761
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)	750,000
Number of Cruise Terminals	**2**
B Street Cruise Shop Terminal:	
Size (in acres)	9.1
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

Debt Service Coverage – Last Ten Fiscal Years

(Expressed in thousands)

Description	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Pledged Revenues[1]	$ 151,982	$ 140,754	$ 125,401	$ 133,350	$ 133,385	$ 132,702	$ 145,141	$ 152,377	$ 163,551	$ 174,623
Operating and Maintenance Expenses[2]	(110,250)	(124,681)	(113,795)	(108,826)	(114,155)	(115,988)	(114,368)	(120,774)	(124,741)	(141,377)
Net Pledged Revenues - Senior Debt	$ 41,732	$ 16,073	$ 11,606	$ 24,524	$ 19,230	$ 16,714	$ 30,773	$ 31,603	$ 38,810	$ 33,246
Senior Debt Service[3]										
Principal	$ 1,215	$ 1,255	$ 1,305	$ 1,360	$ 1,420	$ 1,490	$ 1,840	$ 1,650	$ 1,725	$ 1,795
Interest	2,248	2,208	2,159	2,105	2,010	1,949	1,822	1,729	1,630	1,559
Total Senior Debt Service	$ 3,463	$ 3,463	$ 3,464	$ 3,465	$ 3,430	$ 3,439	$ 3,662	$ 3,379	$ 3,355	$ 3,354
Senior Debt Coverage Ratio	**12.05**	**4.64**	**3.35**	**7.08**	**5.61**	**4.86**	**8.40**	**9.35**	**11.57**	**9.91**

[1]Pledged Revenues are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.
[2]Operating and Maintenance Expenses are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.
[3]Senior Debt Service is calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

Ratios of Outstanding Debt by Type – Last Ten Fiscal Years

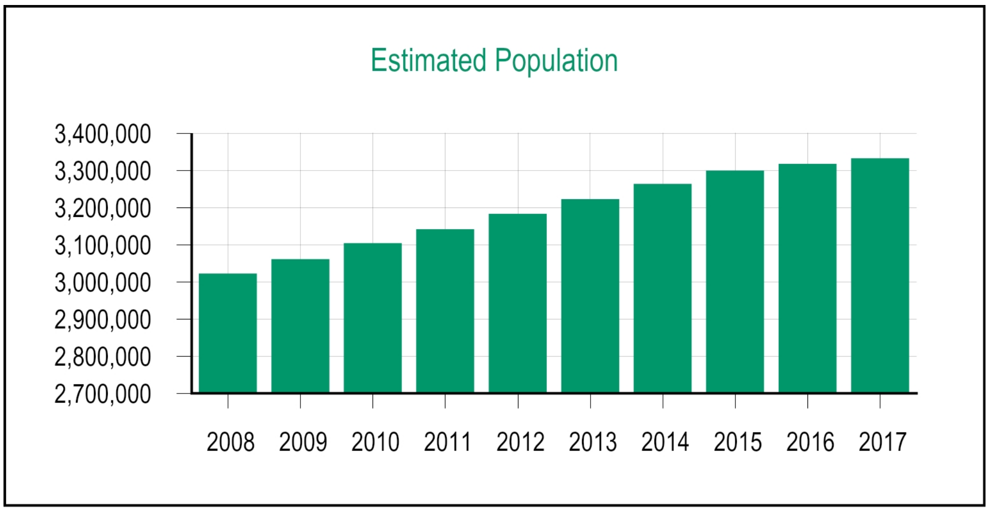
(Expressed in thousands)

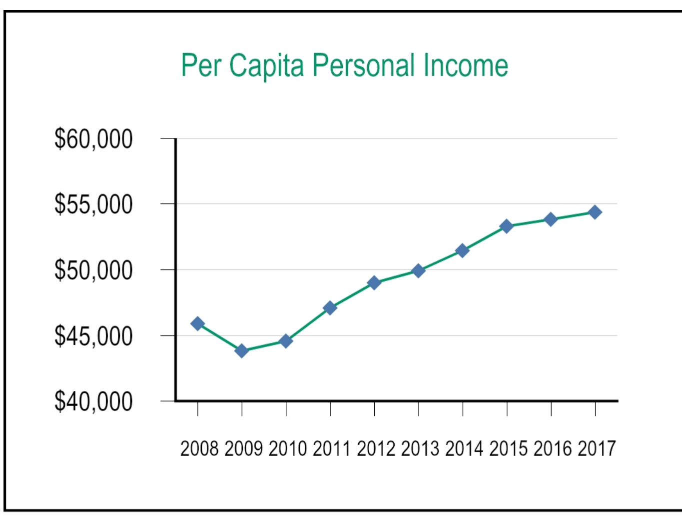
Fiscal Year	Revenue Bonds	Notes[1]	Capital Leases	Total Debt	Percent of Personal Income[2]	Per Capita[2]
2008	$ 47,848	$ 49,198	$ —	$ 97,046	0.07%	$ 32
2009	46,431	48,098	2,698	97,227	0.07%	32
2010	44,979	46,589	2,508	94,076	0.07%	30
2011	43,468	44,610	1,931	90,009	0.06%	29
2012	41,909	42,914	1,273	86,096	0.06%	27
2013	40,293	45,474	646	86,413	0.05%	27
2014	39,061	48,243	—	87,304	0.05%	27
2015	37,156	46,033	—	83,189	0.05%	25
2016	35,153	40,344	—	75,497	0.04%	23
2017	33,067	37,953	—	71,020	0.04%	21

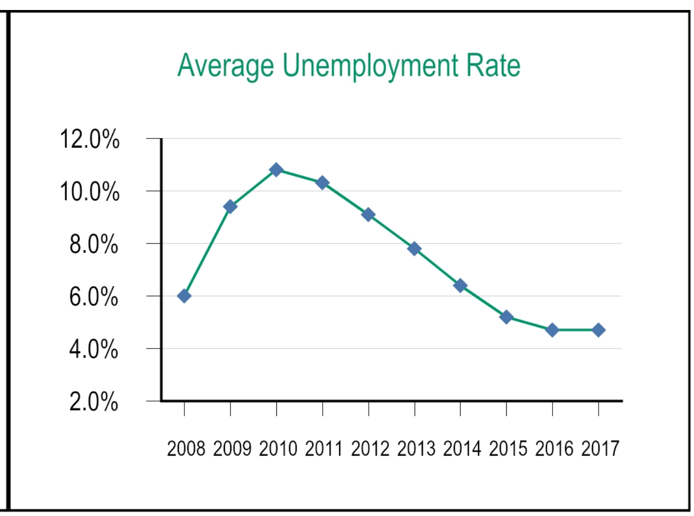
[1]Includes the San Diego County Regional Airport Authority (SDCRAA), Pond 20, and Civic San Diego notes.
[2]Refer to the Demographic and Economic Statistics table for further detail on population and per capita information.

San Diego County 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]
2008	3,022,116	138,673,021	45,886	6.0%
2009	3,061,203	134,139,980	43,819	9.4%
2010	3,104,543	138,346,589	44,563	10.8%
2011	3,141,768	147,960,807	47,095	10.3%
2012	3,183,413	155,954,440	48,990	9.1%
2013	3,222,558	160,828,662	49,907	7.8%
2014	3,263,431	167,931,419	51,459	6.4%
2015	3,299,521	175,858,666	53,298	5.2%
2016	3,317,749	178,614,335	53,836	4.7%
2017	3,332,516[3]	181,202,225[3]	54,374[3]	4.7%





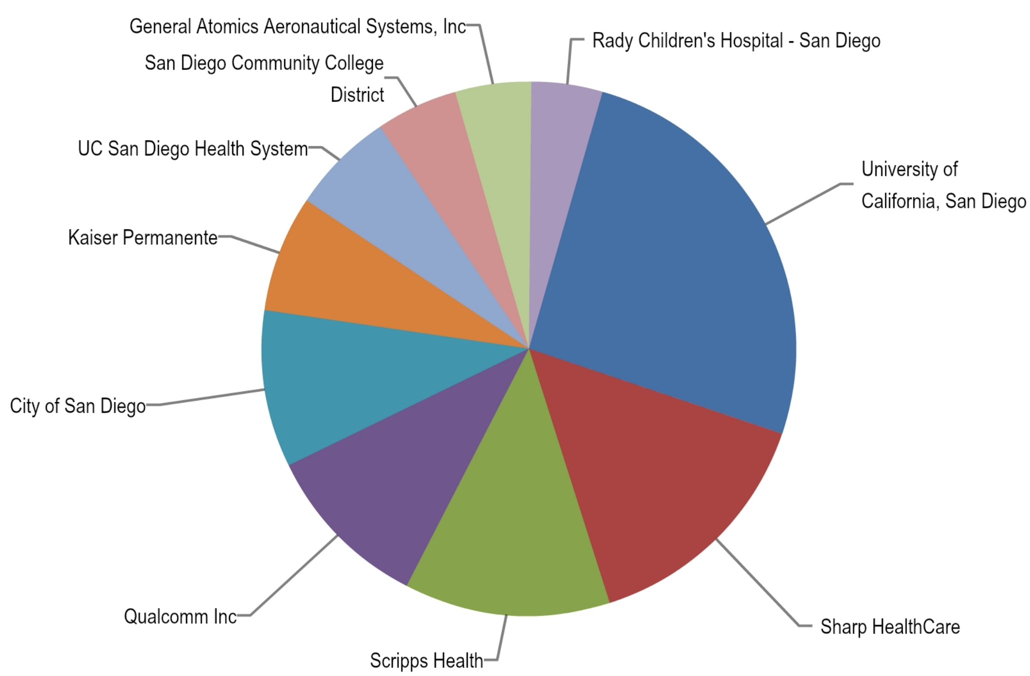


Sources:
[1]US Department of Commerce, Bureau of Economic Analysis, Regional Income Division. Last updated: November 17, 2016 – new estimates for 2015; revised estimates for 1998-2014
[2]California Employment Development Department (March 2016 Benchmark)
Personal Income and Per Capita Personal Income were computed using Census Bureau midyear population estimates. Estimates for [3]2010-2015 reflect county population estimates available as of March 2016.

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

2008				2017			
Employer	Local Employees	Rank	%	Employer	Local Employees	Rank	%
State of California	41,400	1	3.10%	University of California, San Diego	30,671	1	2.14%
Federal Government	40,800	2	3.06%	Sharp HealthCare	17,809	2	1.24%
University of California, San Diego	30,078	3	2.25%	Scripps Health	14,863	3	1.04%
County of San Diego	16,303	4	1.22%	Qualcomm Inc	12,186	4	0.85%
San Diego Unified School District	15,800	5	1.18%	City of San Diego	11,347	5	0.79%
Sharp HealthCare	14,390	6	1.08%	Kaiser Permanente	8,406	6	0.59%
Scripps Health	11,690	7	0.88%	UC San Diego Health System	7,438	7	0.52%
City of San Diego	11,054	8	0.83%	San Diego Community College District	5,902	8	0.41%
Qualcomm Inc	9,444	9	0.71%	General Atomics Aeronautical Systems, Inc	5,480	9	0.38%
Kaiser Permanente	7,608	10	0.57%	Rady Children's Hospital - San Diego	5,129	10	0.36%
Total Industry Employment in San Diego County (Year 2007): 1,334,700				Total Industry Employment in San Diego County (Year 2016): 1,431,600			

San Diego County Top Ten Principal Employers – Current Fiscal Year



Sources:
San Diego Business Journal Book of Lists (Year 2008 – as at April 1, 2008 and Year 2017 – as at July 1, 2016)
Total Industry Employment - California Employment Development, Labor Market Information, March 2016 Benchmark – Years 2007 and 2016

PORT of SAN DIEGO

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