SAN DIEGO UNIFIED PORT DISTRICT

Independent Auditors Report,
Management's Discussion and Analysis and
Basic Financial Statements

Years Ended June 30, 2013
and June 30, 2012

MGO Certified Public Accountants.

SAN DIEGO UNIFIED PORT DISTRICT

Years Ended June 30, 2013 and June 30, 2012

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INDEPENDENT AUDITOR’S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Port Commissioners
San Diego Unified Port District

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego Unified Port District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements of the District as of and for the year ended June 30, 2012, were audited by other auditors whose report dated December 3, 2012, expressed an unmodified opinion on those financial statements. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress as listed in the table of contents, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
December 3, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS

The financial management of the San Diego Unified Port District (District) offers readers of these basic financial statements this narrative overview and analysis of the financial activities of the District as of and for the years ended June 30, 2013 and June 30, 2012. 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, 2013

- As of June 30, 2013, the assets of the District exceeded liabilities by $524.3 million.
- Operating revenues for the District were $135.3 million for fiscal year 2013 compared to $130.7 million for fiscal year 2012.
- Operating expenses, including depreciation and amortization, for the District were $143.5 million for fiscal year 2013 compared to $140.5 million for fiscal year 2012.
- Nonoperating revenues for the District were $1.4 million for fiscal year 2013 compared to $4.8 million for fiscal year 2012.
- Nonoperating expenses for the District were $8.8 million for fiscal year 2013 compared to $12.3 million for fiscal year 2012.
- Revenues from capital grants and contributions totaled $11.4 million for fiscal year 2013 compared to $8.3 million for fiscal year 2012.
- The District's total net position decreased by $4.1 million during fiscal year 2013 compared to an $8.9 million decrease in fiscal year 2012.

Financial Highlights – year ended June 30, 2012

- As of June 30, 2012, the assets of the District exceeded liabilities by $528.4 million.
- Operating revenues for the District were $130.7 million for fiscal year 2012 compared to $131.4 million for fiscal year 2011.
- Operating expenses, including depreciation and amortization, for the District were $140.5 million for fiscal year 2012 compared to $133.4 million for fiscal year 2011.
- Nonoperating revenues for the District were $4.8 million for fiscal year 2012 compared to $8.7 million for fiscal year 2011.
- Nonoperating expenses for the District were $12.3 million for fiscal year 2012 compared to $11.4 million for fiscal year 2011.
- Revenues from capital grants and contributions totaled $8.3 million for fiscal year 2012 compared to $2.9 million for fiscal year 2011.
- The District's total net position decreased by $8.9 million during fiscal year 2012 compared to a $1.9 million decrease in fiscal year 2011.

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

The *Statements of Revenues, Expenses, and Changes in Net Position* presents 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 statement reports 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 and liabilities, 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 Statement of Net Position and the Statement 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.

Statement of Net Position

To begin our analysis, a summary of the District's Statement of Net Position is presented on the following page. The District's net position totaled $524.3 million at the end of fiscal year 2013, compared to $528.4 million at the end of fiscal year 2012 and $537.3 million at the end of fiscal year 2011. The largest portion of the District's net position in fiscal year 2013, 90.6%, is its net investment in capital assets compared to 87.2% in fiscal year 2012.

The District's financial position at June 30, 2013 and June 30, 2012 is summarized as follows:

Assets, Liabilities, and Net Position
(Expressed in thousands)

	2013	2012	$ Change increase (decrease)	% Change
Current assets	$ 135,662	$ 145,243	$ (9,581)	(6.6)%
Other noncurrent assets	25,502	36,690	(11,188)	(30.5)%
Capital assets	516,343	501,053	15,290	3.1%
Total assets	$ 677,507	$ 682,986	$ (5,479)	(0.8)%
Current liabilities	$ 34,335	$ 36,636	$ (2,301)	(6.3)%
Noncurrent liabilities	118,903	117,955	948	0.8%
Total liabilities	153,238	154,591	(1,353)	(0.9)%
Net investment in capital assets	474,797	460,701	14,096	3.1%
Restricted	3,436	12,872	(9,436)	(73.3)%
Unrestricted	46,036	54,822	(8,786)	(16.0)%
Total net position	524,269	528,395	(4,126)	(0.8)%
Total liabilities and net position	$ 677,507	$ 682,986	$ (5,479)	(0.8)%

Assets, Liabilities, and Net Position
(Expressed in thousands)

	2012	2011	$ Change increase (decrease)	% Change
Current assets	$ 145,243	$ 151,267	$ (6,024)	(4.0)%
Other noncurrent assets	36,690	49,592	(12,902)	(26.0)%
Capital assets	501,053	482,432	18,621	3.9%
Total assets	$ 682,986	$ 683,291	$ (305)	(0.0)%
Current liabilities	$ 36,636	$ 24,864	$ 11,772	47.3%
Noncurrent liabilities	117,955	121,094	(3,139)	(2.6)%
Total liabilities	154,591	145,958	8,633	5.9%
Net investment in capital assets	460,701	439,531	21,170	4.8%
Restricted	12,872	19,202	(6,330)	(33.0)%
Unrestricted	54,822	78,600	(23,778)	(30.3)%
Total net position	528,395	537,333	(8,938)	(1.7)%
Total liabilities and net position	$ 682,986	$ 683,291	$ (305)	(0.0)%

As of June 30, 2013, the District's assets exceeded liabilities by $524.3 million compared to $528.4 million as of June 30, 2012. 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 as of June 30, 2013 and June 30, 2012 were $46.0 million and $54.8 million respectively and may be used to meet the District's commitments and ongoing obligations. Refer to note 13(a)i for additional information on the District's CIP commitments.

Capital Assets

The District's investment in capital assets as of June 30, 2013 and June 30, 2012 totaled $965.8 million and $933.0 million, with accumulated depreciation of $449.5 million and $432.0 million, resulting in a net book value of $516.3 million and $501.0 million respectively.

Capital Assets

(Expressed in thousands)

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

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

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

- $9.1 million, North Embarcadero Visionary Plan (NEVP) Phase I
- $5.3 million, Port Security Grants Projects
- $3.1 million, Tidelands Fender Repair

- $1.6 million, Crosby Street Pier Modernization
- $1.5 million, Tenth Avenue Marine Terminal Transit 1 Shed Bay "D" and Head House 1 & 2 Demo
- $1.0 million, B Street Pier Cruise Ship Terminal Fire System Upgrades
- $0.9 million, B Street Pier Cruise Ship Terminal Canopy Improvements
- $0.9 million, Tenth Avenue Marine Terminal Shore Power System Project
- $0.8 million, South Embarcadero Historic Harbor Front – Ruocco Park
- $0.6 million, Teledyne Ryan (TDY) Site Demolition
- $0.5 million, Enterprise Content Management System
- $0.5 million, Imperial Beach Pier Deck Refurbishment
- $0.5 million, Remediation - BF Goodrich Land Exchange
- $0.5 million, Tenth Avenue Marine Terminal Telephone System Cable Upgrade
- $0.4 million, Tidelands Pavement Repair
- $0.4 million, Broadway Pier Utility Relocation
- $0.4 million, Tenth Avenue Marine Terminal Bulkhead
- $0.4 million, Chula Vista Bayfront Master Plan Pre-Design
- $0.4 million, Enterprise Dashboard Reporting System
- $0.4 million, Chula Vista Bayfront – H Street Extension
- $0.4 million, National City Marine Terminal Berth Structural and Mooring Repair
- $2.2 million, Miscellaneous All Others

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

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

The District had significant commitments for capital outlays within the Capital Improvement Program (CIP). Each project in the CIP is reviewed and authorized by the Board of Port Commissioners (BPC) and renewed every five (5) years, and annually the program is reviewed and revised as appropriate. As of June 30, 2013, the remaining cost to complete the CIP, excluding projects funded by grants, donations, and contributions, was approximately $44.9 million compared to $37.5 million as of June 30, 2012. These projects were approved to be funded from existing and future cash resources.

Additional information on the District's CIP commitments can be found in Note 13(a).

Capital Assets
(Expressed in thousands)

Description	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Nondepreciable assets:				
Land	$ 197,288	$ 10,115	$ -	$ 207,403
Construction-in-progress	28,864	36,660	(17,814)	47,710
Depreciable assets:				
Land improvements	7,650	-	-	7,650
Buildings and structures	508,049	4,813	(1,064)	511,798
Machinery and equipment	64,587	3,840	(246)	68,181
Roads and parking lots	90,209	62	-	90,271
Total assets	896,647	55,490	(19,124)	933,013
Accumulated depreciation:				
Land improvements	(5,016)	(386)	-	(5,402)
Buildings and structures	(301,557)	(11,174)	1,064	(311,667)
Machinery and equipment	(36,053)	(4,841)	212	(40,682)
Roads and parking lots	(71,589)	(2,620)	-	(74,209)
Capital assets, net	(414,215)	(19,021)	1,276	(431,960)
	$ 482,432	$ 36,469	$ (17,848)	$ 501,053

The District invested a total of $36.7 million in construction-in-progress during fiscal year 2012. Some of these projects were completed and capitalized during the fiscal year.

Following are amounts expended during fiscal year 2012 for some of the major capital projects:

- $6.5 million, Teledyne Ryan (TDY) Site Demolition
- $5.6 million, Port Security Grants Projects
- $4.9 million, Campbell Shipyard Site Remediation and Aquatic Enhancement
- $3.8 million, South Embarcadero Historic Harbor Front – Ruocco Park
- $3.5 million, Chula Vista Filling of the L Ditch
- $3.0 million, North Embarcadero Visionary Plan (NEVP) – Phase I
- $1.3 million, B Street, Navy and Tuna Harbor Piers Piling
- $1.1 million, B Street Pier Cruise Ship Terminal Roof Replacement
- $0.9 million, Tenth Avenue Marine Terminal Telephone System Cable Upgrade
- $0.6 million, Tidelands Pavement Repair
- $0.5 million, B Street Pier Cruise Ship Terminal Canopy Improvements
- $0.5 million, B Street Pier Cruise Ship Terminal Electrical Upgrades
- $0.3 million, Goodrich South Campus Demo (MOU)
- $0.3 million, Tenth Avenue Marine Terminal Transit Shed Bay "D" and Head House 1&2 Demo
- $0.3 million, Tenth Avenue Marine Terminal Bulkhead Upgrade Project

- $0.3 million, Tenth Avenue Marine Terminal Cold Ironing Project
- $3.3 million, Miscellaneous All Others

The $17.8 million decrease in construction-in-progress was primarily due to projects that were completed and capitalized to the appropriate asset categories during fiscal year 2012.

Revenues, Expenses, and Changes in Net Position

While the Statement of Net Position shows the change in the District's financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides insights as to the nature and source of the change in financial position. The District's summarized results of operations for the years ended June 30, 2013 and June 30, 2012 are presented below:

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

	2013	2012	$ Change increase (decrease)	% Change
Operating revenues:				
Real Estate operations	$ 82,604	$ 79,782	$ 2,822	3.5%
Maritime operations	33,469	33,090	379	1.1%
Harbor Police operations	15,313	15,639	(326)	(2.1)%
Other operating revenues	3,884	2,225	1,659	74.6%
Total operating revenues	135,270	130,736	4,534	3.5%
Operating expenses:				
Direct expenses				
Real Estate operations	33,186	34,656	(1,470)	(4.2)%
Maritime operations	20,448	20,612	(164)	(0.8)%
Harbor Police	33,756	31,458	2,298	7.3%
Other operating expenses	1,123	75	1,048	1,395.5%
Depreciation and amortization	19,004	19,096	(92)	(0.5)%
General and administrative expenses	35,951	34,600	1,351	3.9%
Total operating expenses	143,468	140,497	2,971	2.1%
Loss from operations	(8,198)	(9,761)	1,563	(16.0)%
Nonoperating revenues	1,413	4,790	(3,377)	(70.5)%
Nonoperating expenses	(8,784)	(12,306)	(3,522)	28.6%
Nonoperating income (loss)	(7,371)	(7,515)	145	(1.9)%
Capital grants and contributions	11,443	8,339	3,104	37.2%
Change in net position	(4,126)	(8,937)	4,812	(53.8)%
Beginning net position	528,395	537,333	(8,938)	(1.7)%
Ending net position	$ 524,269	$ 528,395	$ (4,125)	(0.8)%

Fiscal year 2013 compared to 2012

Total operating revenues of $135.3 million increased $4.5 million from the prior fiscal year of $130.7 million. Operating expenses of $143.5 million increased $3.0 million from the prior fiscal year of $140.5 million.

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

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

Operating Revenues – Fiscal year 2013 compared to 2012:

- Real Estate operating revenue of $82.6 million increased $2.8 million from $79.8 million in the prior fiscal year. Concession revenue increased $2.1 million due to stronger performance by tidelands hotels and other visitor-serving businesses. Parking revenue increased approximately $0.4 million mainly due to an increase in parking rates and visitors. Fixed rent revenue increased $0.2 million due to an unbudgeted one-time lease payment from a tenant. The remaining variance was from all other operating revenue sources.

- Maritime operating revenue of $33.5 million increased $0.4 million from $33.1 million in the prior fiscal year. Storage space rental revenue increased by $1.0 million due to higher inventory from auto waterborne and rail units. Wharfage revenue increased $0.4 million due to increase in autos, solar energy storage materials, and machinery and equipment. These increases were partially offset by a decrease in cruise ship passenger fees and cruise ship passenger security charges of $0.5 million due to a decrease in cruise ship calls and fewer passengers embarking and disembarking. Fixed rent revenue decreased $0.2 million due to an unoccupied office at the National Distribution Center building and from changes in other tenants lease agreements. Concession revenue decreased $0.1 million as a result of a change in a tenant lease that no longer requires a minimum annual crane fee. Grant revenue decreased $0.1 million due to the expiration of the American Recovery and Reinvestment Act grants. The remaining variance was from all other operating revenue sources.

- Harbor Police operating revenue of $15.3 million decreased $0.3 million from the $15.6 million in the prior fiscal year primarily from the reimbursement for police services provided to the SDCRAA based on actual costs.

- Other operating revenue increased $1.7 million primarily from operating grant revenues.

Operating Expenses - Fiscal year 2013 compared to 2012:

- Real Estate operating expenses of $33.2 million, before depreciation and general and administrative (G&A) expenses, decreased $1.5 million from the prior fiscal year primarily due to a decrease in costs for the following: Embarcadero Marina Park South revetment replenishment project of $1.0 million, North Embarcadero Port Master Plan effort of $0.5 million, long term monitoring at the former Campbell shipyard site of $0.6 million, legal fees and attorney fees for the South Bay Power Plant of $0.5 million, and consulting services for the Goodrich South Campus efforts of $0.5 million. The decreases were partially offset by an increase of $1.0 million for the Commercial Fisheries Revitalization and the Harbor Island Water Conservation Landscape Improvement efforts and an increase of $0.8 million for the allocated costs for fire, police, and medical emergency services which are contracted with the member cities.

- Maritime operating expenses of $20.4 million, before depreciation and G&A expenses, decreased $0.2 million from $20.6 million in the prior fiscal year. The decrease was primarily due to an allowance for bad debt of $1.1 million that was recognized in fiscal year 2012 and no such allowance was booked in fiscal year 2013. Contracted services for security camera maintenance, watchstanders, and security at the cruise ship terminals decreased $0.7 million as a result of lower cruise activity. Equipment and systems decreased $0.2 million due to repairs and upgrades to security equipment which occurred in fiscal year 2012. These decreases were partially offset by $1.0 million for remediation related activities, an increase in terminal fees of $0.4 million primarily due to a higher volume of automotive imports, an increase of $0.3 million for allocated costs for fire, police, and medical emergency contracted with the member cities, and an increase in retirement cost of $0.1 million.

- Harbor Police operating expenses of $33.8 million, before depreciation and G&A expenses, increased $2.3 million from $31.5 million in the prior fiscal year. Personnel expenses increased $1.4 million mainly due to increases in retirement costs, salaries and wages as a result of negotiated salary increases, workers' compensation expense based on reserves estimated by the carrier, and overtime. Non-personnel expenses and other allocated costs increased $0.9 million.

- Other operating expenses, before depreciation and G&A expenses, increased $1.0 million from the prior fiscal year primarily due to an increase in operating grants expenses of $0.9 million. The remaining variance was from various operating expense categories.

- Total depreciation and amortization expense of $19.0 million decreased $0.1 million from $19.1 million in the prior fiscal year.

- General and Administrative (G & A) expenses of $36.0 million increased $1.4 million from $34.6 million in the prior fiscal year primarily due to the following increases: $0.3 million from purchasing grant funded communication systems equipment, $0.2 million in legal services, and a combined $0.2 million from retiree health and group health insurance. Additionally, $0.4 million was recorded in fiscal year 2013 for various contingencies. The remaining variance was from various expense categories.

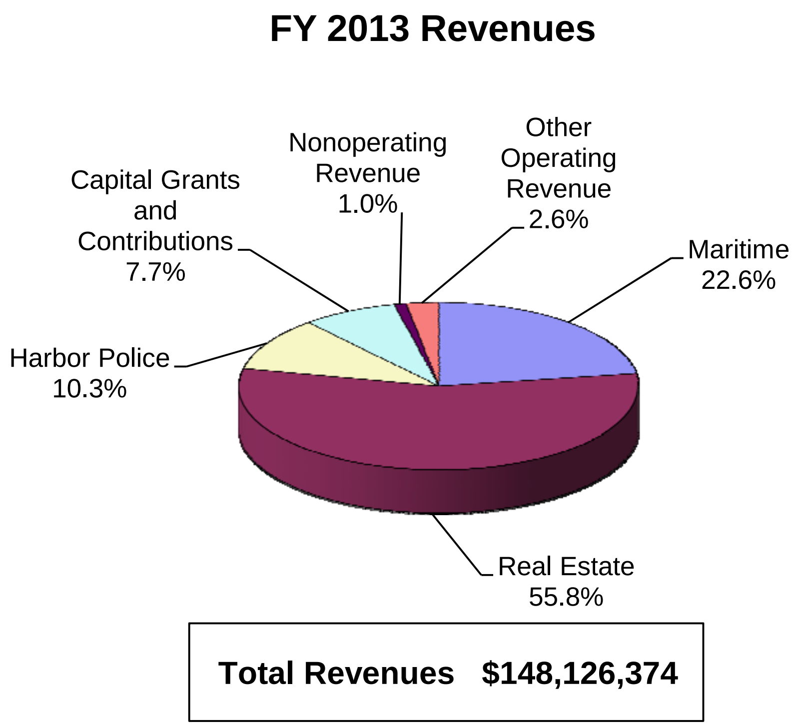
Nonoperating Revenues and Expenses - Fiscal year 2013 compared to 2012:

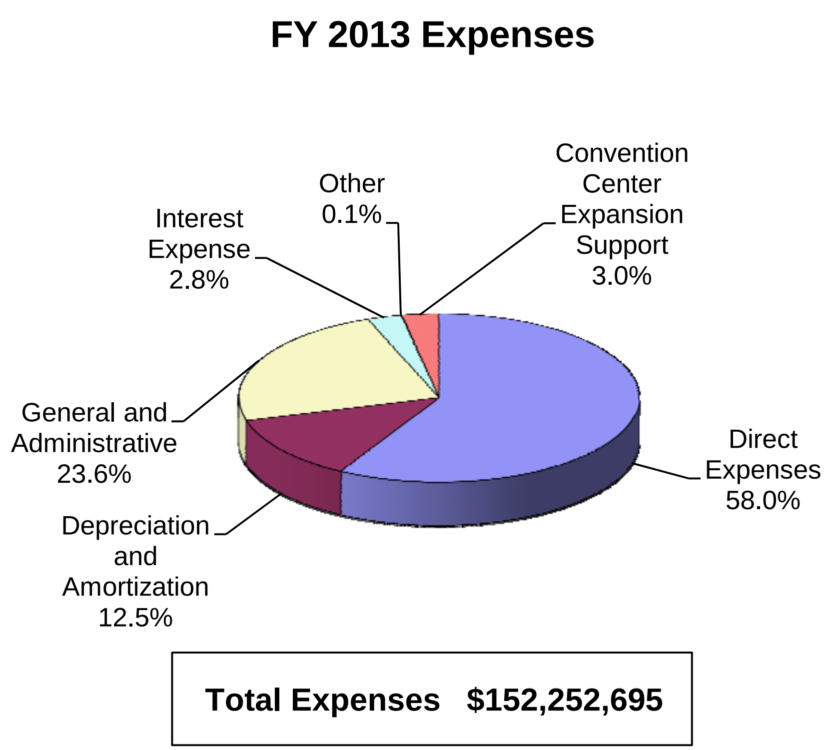
- The District's nonoperating revenues of $1.4 million, excluding capital grants and contributions, decreased $3.4 million from $4.8 million in the prior fiscal year. The decrease was primarily due to a prior year legal settlement of $3.0 million and interest on investments being lower by $0.6 million. The remaining variance was from all other nonoperating revenue sources.

- Total nonoperating expenses of $8.8 million decreased $3.5 million from total nonoperating expenses of $12.3 million. The prior fiscal year includes financial assistance payments for the National City Aquatic Center, Coronado Boathouse, and the Imperial Beach Sand Replenishment projects.

- Capital grants and contributions of $11.4 million increased $3.1 million from $8.3 million in the prior fiscal year. This was primarily due to the contribution from Civic San Diego for costs incurred for the NEVP Phase I project. Please refer to Note 4(d) for additional information on funding for the NEVP Phase I project.

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





Revenues, Expenses, and Changes in District Equity
(Expressed in thousands)

	2012	2011	$ Change increase (decrease)	% Change
Operating revenues:				
Real Estate operations	$ 79,782	$ 80,904	$ (1,122)	(1.4)%
Maritime operations	33,090	34,033	(943)	(2.8)%
Harbor Police operations	15,639	13,190	2,449	18.6%
Other operating revenues	2,225	3,240	(1,015)	(31.3)%
Total operating revenues	130,736	131,367	(631)	(0.5)%
Operating expenses:				
Direct expenses				
Real Estate operations	34,656	26,512	8,144	30.7%
Maritime operations	20,612	19,031	1,581	8.3%
Harbor Police	31,458	35,407	(3,949)	(11.2)%
Other operating expenses	75	1,830	(1,755)	(95.9)%
Depreciation and amortization	19,096	19,267	(171)	(0.9)%
General and administrative expenses	34,600	31,357	3,243	10.3%
Total operating expenses	140,497	133,404	7,093	5.3%
Income (loss) from operations	(9,761)	(2,037)	(7,724)	379.2%
Nonoperating revenues	4,790	8,650	(3,860)	(44.6)%
Nonoperating expenses	12,306	11,432	874	7.6%
Nonoperating income (loss)	(7,515)	(2,782)	(4,734)	170.2%
Capital grants and contributions	8,339	2,930	5,409	184.6%
Change in District equity	(8,937)	(1,889)	(7,049)	373.2%
Beginning District equity	537,333	539,222	(1,889)	(0.4)%
Ending District equity	$ 528,395	$ 537,333	$ (8,938)	(1.7)%

Fiscal year 2012 compared to 2011

Total operating revenues of $130.7 million decreased $0.7 million from the prior fiscal year of $131.4 million. Operating expenses of $140.5 million increased $7.1 million from the prior fiscal year of $133.4 million.

Approximately 61.0% of the District's total operating revenue was attributable to Real Estate operations, which includes land and building leases, concession fees and parking fees. Maritime operations, which include wharfage, land and building leases, cruise ship passenger fees, dockage fees, and storage space rental, accounted for approximately 25.3% of the District's total operating revenue. Harbor Police accounted for approximately 12.0% of total operating revenues, which consists of services provided to the San Diego County Regional Airport Authority (SDCRAA), citations issued for vehicle code violations, revenue from piers and floats, and operating grant revenue. Other operating revenue accounted for approximately 1.7% of the District's total operating revenue and includes reimbursements for General and Administrative costs associated with the SDCRAA for Harbor Police services, operating grant revenues, permit and license fees, and miscellaneous other operating revenues.

Nonoperating revenue includes legal insurance settlements, interest income, reimbursed legal fees, insurance proceeds, gain/loss from disposal of capital assets, and miscellaneous other revenue.

Operating Revenues - Fiscal year 2012 compared to 2011:

- Real Estate operating revenue of $79.8 million decreased $1.1 million from $80.9 million in the prior fiscal year. Fixed rent revenue decreased $3.3 million mainly due to a prior year rental revenue adjustment for the South Bay Power Plant. Offsetting the decrease was an increase in concession revenue of $2.0 million due to stronger performance by Tidelands hotels and other visitor-serving businesses. The remaining $0.2 million variance was from all other operating revenue sources.

- Maritime operating revenue of $33.1 million decreased $0.9 million from $34.0 million in the prior fiscal year. Cruise ship passenger fees and cruise ship passenger security charges were lower by $1.5 million due to a decrease in cruise ship calls and fewer passengers embarking and disembarking. Dockage revenue decreased $0.4 million as a result of fewer vessel calls compared to the prior fiscal year. Storage space rental revenue decreased $0.2 million due to reduced dwell time for vehicle imports and windmill components. These decreases were partially offset by an increase in wharfage of $1.1 million mainly due to an increase in cargo import and export activities.

- Harbor Police operating revenue of $15.6 million dollars increased $2.4 million from $13.2 million in the prior fiscal year. The increase was primarily from the services provided to the San Diego County Regional Airport Authority (SDCRAA) and receipt of additional grant revenues for the Homeland Security and High Intensity Drug Trafficking Area programs.

- Other operating revenue decreased $1.0 million primarily due to a decrease in grant revenue.

Operating Expenses - Fiscal year 2012 compared to 2011:

- Real Estate operating expenses of $34.7 million, before depreciation and general and administrative (G&A) expenses, increased $8.1 million from the prior fiscal year. The increase was primarily due to the transfer of expenses of $5.3 million for the Municipal Service Agreements (MSA) with member cities for fire, police, and medical emergency from the Harbor Police Department; an increase of $1.2 million for the North Embarcadero Port Master Plan effort; an increase of $1.0 million for the Embarcadero Marina Park South revetment replenishment project; an increase of $0.8 million for legal and attorney fees for the South Bay Power Plant; and, an increase of $0.6 million for long term monitoring at the Campbell shipyard site. These increases were partially offset by decreases of $0.8 million in all other operating expense categories.

- Maritime operating expenses of $20.6 million, before depreciation and G&A expenses, increased $1.6 million from $19.0 million in the prior fiscal year. The increase was primarily due to an allowance for bad debt of $1.0 million and the transfer of expense of $0.8 million for the MSA with member cities for fire, police, and medical emergency from the Harbor Police Department. Pasha automotive terminal fees increased $0.3 million primarily due to a higher volume of automotive imports. The increase was partially offset by a decrease in contracted services of $0.7 million for security camera maintenance, watchstanders, and security at the cruise ship terminals as a result of less cruise activity. The remaining $0.2 million variance was in all other expense categories.

- Harbor Police operating expenses of $31.5 million, before depreciation and G&A expenses, decreased $3.9 million from $35.4 million in the prior fiscal year. Non-personnel expense decreased primarily due to the transfer of the MSA expenses with member cities for fire, police, and medical emergency to Real Estate and Maritime Operations. The decrease was partially offset by personnel expense which had a net increase of $1.4 million mainly due to increases in retirement costs, salaries and wages as a result of negotiated salary increases, overtime, and accrual for Other Post Employment Benefits (OPEB).

- Other operating expenses, before depreciation and G&A expenses, decreased $1.8 million from the prior fiscal year. The decrease was primarily due to the transfer and allocation of Environmental Services' expenses to all other profit centers. In the prior fiscal year, Other operating expenses included Environmental Services and Miscellaneous cost centers.

- Total depreciation and amortization expense of $19.1 million decreased $0.2 million from $19.3 million in the prior fiscal year.

- General and Administrative expenses of $34.6 million increased $3.2 million from $31.4 million in the prior fiscal year. This was primarily due to an increase in professional services of $1.8 million for technology strategic planning, implementation of dashboard reporting, waterfront activation for special events, and business development activation. Legal services and legal settlements increased $0.7 million and retiree health benefits (paid) increased $0.6 million due to an increase in retirees as a result of the Early Retirement Incentive Program (ERIP), which was implemented in the prior fiscal year. The remaining $0.1 million variance was in all other expense categories.

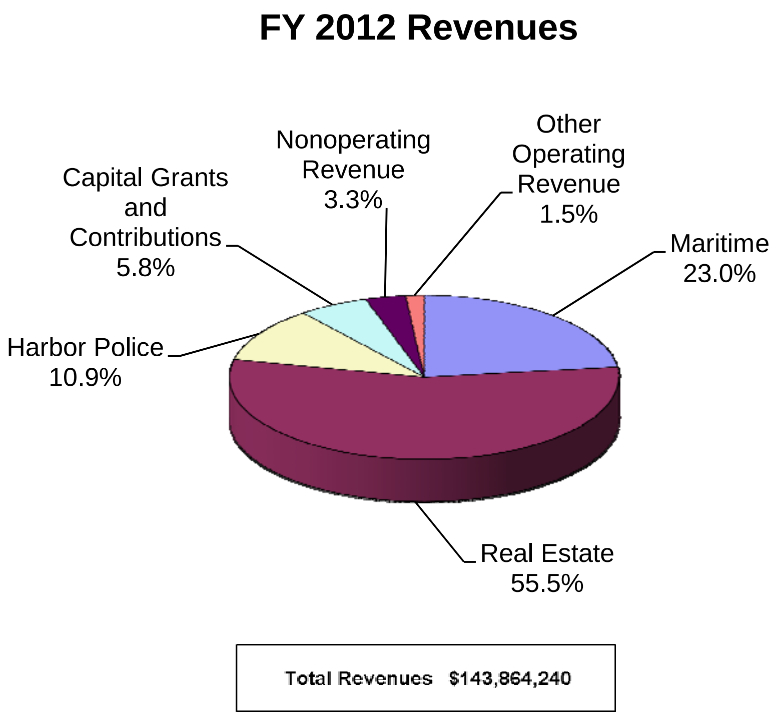
Nonoperating Revenues and Expenses - Fiscal year 2012 compared to 2011:

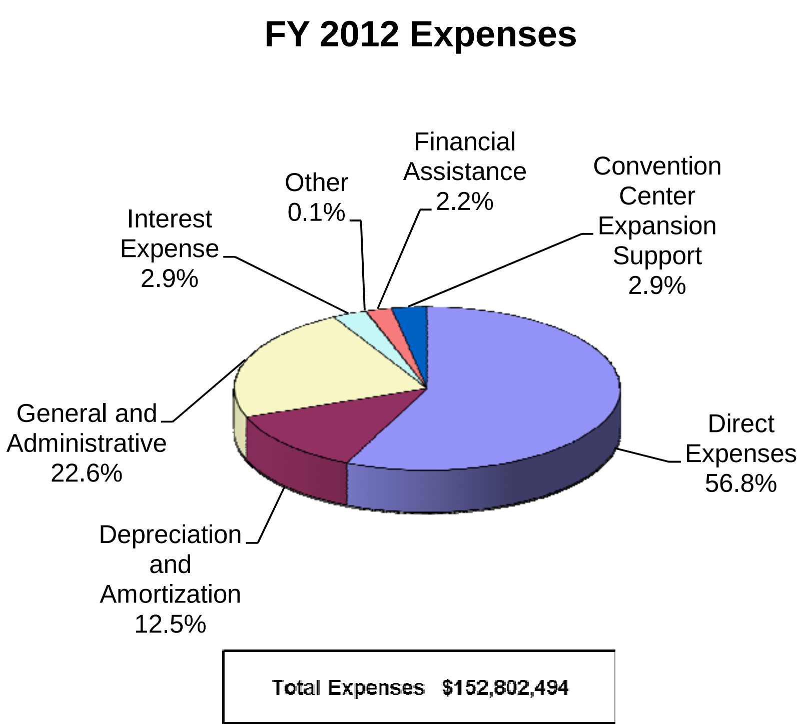
- The District's nonoperating revenues of $4.8 million, excluding capital grants and contributions, decreased $3.9 million from $8.7 million in the prior fiscal year. The decrease was primarily due to a prior year gain from disposal of fixed assets of $3.3 million for the settlement of the Anti-Submarine Warfare Training (ASW) site and a decrease in terminal special facility fees of $1.0 million due to the facility fees ending in the prior fiscal year.

- Total nonoperating expenses of $12.3 million increased by $0.9 million from total nonoperating expenses of $11.4 million in the prior fiscal year primarily due to financial assistance for the National City Aquatic Center, Coronado Boathouse, and the Imperial Beach Sand Replenishment projects.

- Capital grants and contributions of $8.3 million increased $5.4 million from $2.9 million in the prior fiscal year.

The following charts show the total District revenues and expenses as percentages by major categories for fiscal year 2012:





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 (San Diego, National City, Chula Vista, Imperial Beach, and Coronado). 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 Note 20 has been 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%, 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 2004 Series A Bonds and 2004 Series B 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 2.00% 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 FY 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.

In November 2013, the 2004 Series B Bonds were refunded by the District. Additional information on the credit rating and refunding can be found in Note 14.

Following is a summary of the District's outstanding bonds and notes payable as of June 30, 2013 and June 30, 2012:

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013	Amounts due within one year
Notes:					
$50.0 Million promissory note	$ 42,703,301	$ —	$ (1,369,638)	$ 41,333,663	$ 1,446,895
Pond 20 note	211,060	—	(211,060)	—	—
Master tax-exempt lease/purchase agreement	1,273,477	—	(627,559)	645,918	645,918
Civic San Diego loan advance - NEVP	—	4,140,557	—	4,140,557	850,000
Revenue bonds:					
Series A and B 2004 bonds payable	40,680,000	—	(1,490,000)	39,190,000	1,570,000
Series A and B 2004 bonds premium	1,228,592	—	(125,754)	1,102,838	—
Total bonds and notes	$ 86,096,430	$ 4,140,557	$ (3,824,011)	$ 86,412,977	$ 4,512,813

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012	Amounts due within one year
Notes to SDCRAA:					
$50.0 Million promissory note	$ 43,993,521	$ —	$ (1,290,220)	$ 42,703,301	$ 1,369,637
Pond 20 note	616,953	—	(405,893)	211,060	211,060
Master tax-exempt lease/purcahse agreement	1,930,837	—	(657,360)	1,273,477	627,560
Revenue bonds:					
Series A and B 2004 bonds payable	42,100,000	—	(1,420,000)	40,680,000	1,490,000
Series A and B 2004 bonds premium	1,368,152	—	(139,560)	1,228,592	—
Total bonds and notes	$ 90,009,463	$ —	$ (3,913,033)	$ 86,096,430	$ 3,698,257

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, 2013 and 2012

Assets

	June 30, 2013	June 30, 2012
Current assets:		
Cash and cash equivalents	$ 45,052,705	$ 55,658,636
Investments	69,180,276	68,105,253
Accounts receivable, net of allowance	20,167,263	19,357,546
Other current assets	1,262,092	2,121,682
Total current assets	135,662,336	145,243,117
Noncurrent assets:		
Cash & investments designated for specific capital projects & commitments	6,154,890	2,053,826
Deferred costs - Series 2004 Bonds, net	542,319	611,146
Restricted assets:		
Restricted cash and investments:		
Convention Center expense rate stabilization	—	5,500,000
TDY site demolition and building abatement	—	6,780,837
Deposits and other miscellaneous	1,795,981	1,495,076
Escrow accounts:		
So. Bay Power Plant remediation and other miscellaneous	10,832,462	14,307,697
Workers' compensation collateral	2,619,064	2,368,809
Series 2004 bonds:		
Debt service reserve funds held by trustee	3,467,468	3,473,801
Total restricted assets	18,714,975	33,926,220
Other noncurrent assets	90,022	99,210
Total other noncurrent assets	25,502,206	36,690,402
Capital assets:		
Nondepreciable assets:		
Land	226,529,303	207,403,128
Construction-in-progress	43,200,647	47,710,228
Depreciable assets:		
Land improvements	7,650,334	7,650,334
Buildings and structures	525,509,049	511,798,149
Machinery and equipment	71,613,765	68,181,383
Roads and parking lots	91,327,223	90,270,688
Total capital assets	965,830,321	933,013,910
Less accumulated depreciation	(449,487,402)	(431,961,176)
Capital assets, net	516,342,919	501,052,734
Total noncurrent assets	541,845,125	537,743,136
Total assets	$ 677,507,461	$ 682,986,253

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT

Statements of Net Position

June 30, 2013 and 2012

Liabilities and Net Position

	June 30, 2013	June 30, 2012
Current liabilities:		
Accounts payable	$ 14,663,946	$ 15,443,427
Accrued liabilities	7,309,630	9,562,402
Current portion of accrued leave	4,222,636	3,915,191
Deposits and other short-term liabilities	2,980,652	3,346,492
Accrued interest payable, series 2004 bonds	645,573	670,406
Notes payable, current portion	2,942,813	2,208,257
Bonds payable, current portion	1,570,000	1,490,000
Total current liabilities	34,335,250	36,636,175
Noncurrent liabilities:		
Liabilities – payable from restricted assets:		
South Bay Power Plant remediation	10,532,462	14,007,697
Other long-term liabilities:		
Notes payable to SDCRAA, net of current position	39,886,767	41,333,663
Bonds payable, net of current position	38,722,838	40,418,592
Accrued leave, net of current portion	1,499,734	1,537,497
Unearned Income	186,465	101,469
Civic San Diego Loan Advance - NEVP	3,290,557	—
Master Tax-Exempt Lease/Purchase Agreement	—	645,917
Net OPEB Obligation	24,784,702	19,910,237
Total other long-term liabilities	108,371,063	103,947,375
Total noncurrent liabilities	118,903,525	117,955,072
Total liabilities	153,238,775	154,591,247
Net Position		
Net investment in capital assets	474,796,446	460,700,750
Restricted for other projects and grants	3,436,019	12,872,088
Unrestricted	46,036,221	54,822,168
Total net position	524,268,686	528,395,006
Total liabilities and net position	$ 677,507,461	$ 682,986,253

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2013 and 2012

	June 30, 2013	June 30, 2012
Operating revenues:		
Real Estate operations	$ 82,604,486	$ 79,782,142
Maritime operations	33,469,190	33,089,666
Harbor Police	15,312,590	15,638,610
Other operating revenues	3,883,655	2,225,198
Total operating revenues	135,269,921	130,735,616
Operating expenses:		
Direct expenses:		
Real Estate operations	33,185,960	34,656,396
Maritime operations	20,447,662	20,611,614
Harbor Police	33,756,227	31,457,754
Other operating expenses	1,122,832	75,083
Depreciation and amortization	19,003,918	19,096,260
General and administrative expenses	35,951,226	34,599,617
Total operating expenses	143,467,825	140,496,724
Loss from operations	(8,197,904)	(9,761,108)
Nonoperating revenue (expense):		
Interest income	627,214	1,126,791
Settlement income	6,250	5,000
Net decrease in the fair value of investments	(206,298)	(349,218)
Interest expense	(4,206,450)	(4,395,595)
Financial assistance other	—	(3,330,000)
Convention Center expansion support	(4,500,000)	(4,500,000)
Other nonoperating expenses	(78,420)	(80,175)
Other nonoperating revenues	986,264	4,007,095
Nonoperating revenue (expense), net	(7,371,440)	(7,516,102)
Loss before capital contributions	(15,569,344)	(17,277,210)
Capital grants and contributions	11,443,024	8,338,957
Change in net position	(4,126,320)	(8,938,253)
Net position, beginning of year	528,395,006	537,333,259
Net position, end of year	$ 524,268,686	$ 528,395,006

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	June 30, 2013	June 30, 2012
Cash flows from operating activities:		
Payments from customers	$ 134,094,363	$ 125,812,999
Payments to suppliers	(46,219,685)	(35,533,475)
Payments to employees	(73,768,970)	(70,349,340)
Other receipts	561,867	3,737,759
Net cash provided by operating activities	14,667,575	23,667,943
Cash flows from noncapital financing activities:		
Maintenance Fund-Salute to Bob Hope	84,996	4,060
Financial assistance for Convention Center expansion	(4,500,000)	(4,500,000)
Financial assistance other	—	(3,330,000)
Note payments	(2,208,257)	(2,293,528)
Net cash used in noncapital financing activities	(6,623,261)	(10,119,468)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(34,830,998)	(36,532,963)
Proceeds on sale of capital assets	64,691	57,211
Federal/state grants received	4,996,663	5,153,007
Contributions for Capital Assets	5,446,361	3,185,949
Payment of bond principal	(1,490,000)	(1,420,000)
Interest paid	(4,255,084)	(4,484,848)
Civic San Diego Loan Advance - NEVP	4,140,557	—
Net cash used in capital and related financing activities	(25,927,810)	(34,041,644)
Cash flows from investing activities:		
Purchase of short-term investments	(57,449,152)	(99,896,000)
Maturity of short-term investments	64,252,998	117,442,536
Interest received from investment securities	473,719	785,224
Net cash provided by investing activities	7,277,565	18,331,760
Net decrease in cash and cash equivalents	(10,605,931)	(2,161,408)
Cash and cash equivalents, beginning of year	55,658,636	57,820,044
Cash and cash equivalents, end of year	$ 45,052,705	$ 55,658,636
Reconciliation of operating loss to net cash provided by operating activities:		
Loss from operations	$ (8,197,904)	$ (9,761,108)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization expense	19,003,918	19,096,260
Bad debt expense	1,619	1,086,308
Loss on disposal of assets	—	(7,499)
Settlement income	6,250	5,000
Other nonoperating activities	805,871	3,890,546
Changes in assets and liabilities:		
Accounts receivable/notes receivable-tenant	(811,335)	(6,660,401)
Other current assets	859,591	(528,187)
Accounts payable	757,412	3,932,456
Accrued liabilities	(1,978,454)	6,043,275
Other restricted assets	(250,254)	(150,288)
Other long-term liabilities	4,836,702	6,070,105
Deposits and other short-term liabilities	(365,841)	651,476
Net cash provided by operating activities	$ 14,667,575	$ 23,667,943
Supplemental disclosure of noncash investing, capital, and financing activities:		
Additions to capital assets included in accounts payable	$ —	$ 1,145,844
Amortization of Series 2004 Bond Issue Costs	68,826	73,973
Donated asset, Unconditional Surrender	1,000,000	—

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

(a) Organization

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

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

(b) Basis of Accounting

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

(c) Accounts Receivable

An allowance for uncollectible accounts receivable has been provided in the amount of $1,100,000 as of June 30, 2013 compared to $1,436,308 as of June 30, 2012. The amount is based upon management's estimate of accounts that will not be collected. Accounts receivable are carried at original invoice amount for fixed rent tenants and at estimated invoice amount for concession (i.e., variable) rent tenants, less an estimate made for doubtful receivables for both fixed rent and concession tenants based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition, credit history, and current economic conditions.

(d) Cash and Cash Equivalents

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

(e) Investments

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

(f) Restricted Assets

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

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

The District classifies assets as restricted when the resources that were received or earned contain an explicit understanding between the resource provider and the District that the funds would be used for a specific purpose.

(g) Designated Assets

The BPC may designate funds, which they do not consider to be available for general operations. At June 30, 2013, the District has designated funds primarily for the unpaid contractual portion of some capital projects that are currently in progress totaling $6.2 million compared to $2.1 million on June 30, 2012. This designation is classified in the accompanying statement of net position as cash and investments designated for specific capital projects and commitments.

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

- Remaining costs to complete CIP projects not funded by grants, donations, or contributions, but will be funded from existing and future cash resources totaling $44.9 million (see Note 13 (a)i) compared to $37.5 million in fiscal year 2012.

- Commitments for other specific projects and activities (non-CIP) totaling $11.5 million compared to $19.5 million in fiscal year 2012.

(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. Assets acquired under capital leases are amortized over the shorter of the lease term or the 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 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
Buildings, water borne structures, and other terminals	10 to 50 years
Automotive and field equipment, furniture, and fixtures	3 to 15 years

(i) Compensated Absences

All employees of the District earn	Annual Accrued Hours (days)	Maximum Accrued Hours (days)
0-5th	144 hours (18 days)	432 hours (54 days)
6-15th	184 hours (23 days)	552 hours (69 days)
16th-up	224 hours (28 days)	672 hours (84 days)

(j) District Net Position

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

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, 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 revenue or nonoperating revenue, based on the following criteria:

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

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

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

(l) Expense Classifications

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

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

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

(m) Capital Grants and Contributions

When a capital grant agreement is approved and all eligibility requirements have been met, the expenses are recorded as grants receivable and capital grant revenue. When a capital asset is donated, the contributed capital asset and donated revenue are recorded at fair value in the period received.

(n) Deferred Bond Issuance Costs

The 2004 revenue bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. In addition, the bonds were issued at a premium and the premium is amortized over the term of the bonds using the straight-line method. The premium on the bonds is recorded as a component of its carrying value.

(o) Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities; and, reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Reclassifications

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

(q) New Governmental Accounting Standards

The District implemented the following new governmental accounting standards as of July 1, 2012.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCAs)*, establishes recognition, measurement and disclosure requirements for SCAs for both transferors and governmental operators. This statement requires governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The District does not have any SCAs as defined by GASB Statement No. 60.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus An Amendment of GASB Statements No. 14 and No. 34*, enhances the relevance of the financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. There was no impact on the District's financial statements resulting from the implementation of this statement.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*, provides for the incorporation into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (a) Financial Accounting Standards Board (FASB) Statements and Interpretations, (b) Accounting Principles Board Opinions, and (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure.

GASB Statement No. 62 also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, such entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and deferred inflows of resources. State and local entities enter into transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. Concepts Statement No. 4, *Elements of Financial Statements*, identifies those consumptions and acquisitions as deferred outflows of resources and deferred inflows of resources, respectively, and distinguishes them from assets and liabilities. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No.4 also identifies net position as the residual of all other elements in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

(r) ***Upcoming Governmental Accounting Standards***

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement will be effective for the District beginning in fiscal year 2014.

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

Management has not currently determined what, if any, impact implementation of the preceding statements may have on the financial statements of the District.

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

Summary of cash and investments:	2013	2012
Cash and cash equivalents	$ 45,052,705	$ 55,658,636
Investments	69,180,276	68,105,253
Restricted cash and investments:		
Convention Center expense rate stabilization	-	5,500,000
TDY site demolition, and building abatement	-	6,780,837
Refundable security deposits	910,705	833,447
Other	885,276	661,628
Total restricted cash and investments	1,795,981	13,775,912
Designated cash and investments:		
Designated for capital project commitments	6,154,890	2,053,826
Total cash and investments	$ 122,183,852	$ 139,593,627

Cash and investments as of June 30, 2013 consist of the following:	
Cash on hand, current	$ 2,500
Deposits with financial institutions	3,747,101
Investments	118,434,251
Total cash and investments	$ 122,183,852

Cash and investments as of June 30, 2012 consist of the following:	
Cash on hand, current	$ 2,450
Deposits with financial institutions	1,877,292
Investments	137,713,885
Total cash and investments	$ 139,593,627

Investments Authorized by California Government Code and the District Investment Policy

California Government Code § 53600 et seq. and the Board of Port Commissioner's Policy 115 (BPC 115), "Guidelines for Prudent Investments," regulate the investment of the Port's temporarily idle cash. The table below identifies only those investments that are authorized by both California Government Code and BPC 115. The table also identifies restrictions as to investment terms to maturity and maximum allowable investment percentages. While the maximum allowable term to maturity for various investment classes may be five years, BPC 115 limits the portfolio's weighted average days to maturity to three years. At no time during FY 2013 and FY 2012 did the portfolio's weighted average days to maturity exceed three years. Other than the maximum allowable term to maturity, the District's BPC Policy 115 is similar to the restrictions pursuant to California Government Code § 53600 et seq.

		Maximum Allowable Investment	
Investment Types Authorized by California Government Code and BPC 115	**Term to Maturity**	**Total (% of Portfolio)**	**Any One Issuer (% of Portfolio)**
U.S. Treasury Bills, Notes, Bonds	5 Years	No Restriction	No Restriction
Federal Obligations	5 Years	No Restriction	No Restriction
Bankers Acceptances	180 Days	40% FV	10% FV
Certificates of Deposit - Account Registry Service (CDARS)	5 Years	30% FV	FDIC Limit
Commercial Paper	270 Days	15% FV	10% FV
Commercial Paper	31 Days	30% FV	10% FV
Negotiable Certificates of Deposit	1 Year	30% FV	No Restriction
Medium-term notes - "A" rating	2 Years	30% FV	5% FV
Medium-term notes - "AA" rating	3 Years	30% FV	5% FV
Repurchase Agreements	1 Year	No Restriction	No Restriction
Reverse Repurchase Agreements	60 Days	10% FV	No Restriction
Local Agency Investment Fund (LAIF)	Not Applicable	No Restriction	Not Applicable
Shares of Beneficial Interest – Issued by Management Companies	Not Applicable	20% FV	10% FV
Shares of Beneficial Interest – Issued by Joint Powers Authorities (JPA)	2 Years	30% FV	Not Applicable

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 used the call date as equivalent to maturity date.

The District's investment portfolio is conservatively managed. Although the District is authorized by Board policy to invest in securities whose fair value would be considered highly sensitive to interest rate risk, the District did not own any specific securities considered highly sensitive. The fair value of the District's position in the external pools LAIF and CalTrust (Shares of Beneficial Interest – JPA) is the same as the value of the pool shares as of June 30, 2013 and 2012.

Information pertaining to the portfolio's overall sensitivity to interest rate risk at June 30, 2013 and 2012 is provided in the following tables:

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

District Investments		**Remaining Days to Maturity**				
Investment Type	**Fair Value at June 30, 2012**	**120 Days or Less**	**121 to 360**	**361 to 720**	**721 to 1,080**	**1,080 Days or More**
Federal Agencies (Coupon)	$ 67,148,069	$ 17,026,638	$ 31,048,713	$ 10,063,670	$ 9,009,048	$ -
Federal Agencies (Discount)	7,755,126	-	-	-	4,897,866	2,857,260
Local Agency Investment Fund - LAIF	34,500,000	34,500,000	-	-	-	-
Shares of Beneficial Interest - JPA	19,278,892	19,278,892	-	-	-	-
Medium Term Notes	4,031,798	4,031,798	-	-	-	-
Certificates of Deposit - CDARS	5,000,000	-	4,000,000	-	1,000,000	-
Totals:	**$ 137,713,885**	**$ 74,837,328**	**$ 35,048,713**	**$ 10,063,670**	**$ 14,906,914**	**$ 2,857,260**

Disclosures Relating to Credit Risk

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

The information presented below identifies the minimum credit rating required by California Government Code, the District's investment policy, and the actual rating as of June 30, 2013 and 2012 for each investment type.

			Credit Rating at Year End			
Investment Type	**Fair Value at June 30, 2013**	**Minimum Rating**	**AAA**	**AA+**	**AAf /S1+**	**Not Rated**
Federal Agencies (Coupon)	$ 61,934,776	n/a	$ 61,934,776	$ -	$ -	$ -
Federal Agencies (Discount)	7,830,875	n/a	7,830,875	-	-	-
Local Agency Investment Fund - LAIF	38,000,000	n/a	-	-	-	38,000,000
Shares of Beneficial Interest - JPA	5,303,101	n/a	-	-	5,303,101	-
Medium Term Notes	5,365,499	A	-	5,365,499	-	-
Totals:	**$ 118,434,251**	**n/a**	**$ 69,765,651**	**$ 5,365,499**	**$ 5,303,101**	**$ 38,000,000**

Investment Type	Fair Value at June 30, 2012	Minimum Rating	Credit Rating at Year End AAA	AA+	A	AAf/S1	Not Rated
Federal agencies (Coupon)	$ 67,148,069	n/a	$ 67,148,069	$ -	$ -	$ -	$ -
Federal Agencies (Discount)	7,755,126	n/a	7,755,126	-	-	-	-
Local Agency Investment Fund - LAIF	34,500,000	n/a	-	-	-	-	34,500,000
Shares of Beneficial Interest - JPA	19,278,892	n/a	-	-	-	19,278,892	-
Medium Term Notes	4,031,798	n/a	-	2,008,198	2,023,600	-	-
Certificates of Deposit - CDARS	5,000,000	n/a	-	-	-	-	5,000,000
Totals:	**$ 137,713,885**	**n/a**	**$ 74,903,195**	**$ 2,008,198**	**$ 2,023,600**	**$ 19,278,892**	**$ 39,500,000**

On June 10, 2013, Standard & Poor's affirmed the U.S. credit rating of AA+. Moody's Investors Service affirmed their Aaa credit rating on July 18, 2013, and Fitch Ratings affirmed their AAA ratings on June 28, 2013. Therefore, securities listed as U.S. Federal Agencies are not considered AAA by Standard & Poor's rating agency. Funds held in trustee and fiscal agent accounts as of June 30, 2013 and 2012 met California Government Code minimum credit rating requirements.

On June 8, 2012, Standard & Poor's affirmed the U.S. credit rating of AA+. Moody's Investors Service affirmed their AAA credit rating on August 2, 2011, and Fitch Ratings affirmed their AAA ratings on July 10, 2012. Securities listed as U.S. Federal Agencies as of June 30, 2012 were not considered AAA by Standard & Poor's rating agency.

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, 2013 and 2012, are grouped by issuer, are identified in the tables below.

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

Issuer	Investment Type	Fair Value at June 30, 2012	Percentage of Portfolio
Federal Home Loan Bank	Federal agencies securities	$ 19,074,724	13.9%
Federal Home Loan Mortgage Corporation	Federal agencies securities	24,840,224	18.0%
Federal National Mortgage Association	Federal agencies securities	18,984,833	13.8%
Federal Farm Credit Bank	Federal agencies securities	12,003,414	8.7%
General Electric Capital Corp	Medium Term Notes	2,008,198	1.5%
JPMorgan Chase & Co.	Medium Term Notes	2,023,600	1.5%
Various FDIC-Member Banks	Certificates of Deposit - CDARS	5,000,000	3.6%
CalTRUST Short-Term Fund	Shares of Beneficial Interest - JPA	19,278,892	14.0%
Local Agency Investment Fund	Local Agency Investment Fund	34,500,000	25.0%
Totals:		**$137,713,885**	**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 2013 and fiscal year 2012 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% 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% of total amount deposited.

All individual securities as of June 30, 2013 and 2012 were held by a third party bank trust department acting as agent for the District under the terms of a custody agreement. Pool accounts as of June 30, 2013 and 2012 were held by a third party bank trust department acting as agent for each fund under the terms of a custody agreement.

Investment in CalTRUST Investment Pool

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

The investment objectives of CalTRUST seek to attain a high level of current income consistent with the preservation of capital. The program is subject to interest rate and credit risk. This is primarily due to interest rate movements and the potential of 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 and, accordingly, is not subject to the provisions of that Act and the rules thereunder, including the protective rules relating to registered money market mutual funds and other types of mutual funds.

Investments in Certificates of Deposit Account Registry Service (CDARS)

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

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 million. LAIF withdrawals over $10 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, $10.5 million as of June 30, 2013 and $14.0 million as of June 30, 2012 in a Property Escrow Account with US Bank for decommissioning, dismantling, and environmental remediation of the South Bay Power Plant Site. Approximately 94.3% of the escrow funds are invested in an AAAm/Aaa-mf rated Wells Fargo Advantage Heritage Money Market Fund; 5.7% of the escrow funds are invested in AAA U.S. Government Bonds with maturities up to 210 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 $0.3 million 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 $0.3 million as of June 30, 2013and June 30, 2012.

On July 1, 2004 the District established an escrow agreement for Payment Agreement Obligations with National Union Fire Insurance Company of Pittsburgh, PA, on behalf of itself and other member companies of American International Group, Inc., as beneficiary, and the Bank of New York Mellon as escrow agent. The escrow fund was created for the purpose of providing collateral for the District's obligations under any workers' compensation claim. The balance in the escrow account was $2.6 million and $2.4 million as of June 30, 2013 and 2012, respectively, and is invested in the Bank of New York Mellon's Cash Reserve account, an uncollateralized interest-bearing overnight deposit product with daily access. The assets held in this account are part of the escrow agents balance sheet whose long-term deposit rating is AA- and short-term deposit rating is A-1+as of June 30, 2013, and, AA and A-1+ respectively as of June 30, 2012.

Under provisions of the Revenue Bonds 2004 Series A and B indenture, the District is required to maintain a Reserve Fund of $3.5 million with an independent trustee. The District's trustee is US Bank and the funds are invested in the Bank's Reserve Fund Certificate of Deposit, which is collateralized in accordance with the language in the District's bond documents. US Bank's long-term rating is A+ from S&P, AA- from Fitch Ratings, and A1 from Moody's as of June 30, 2013 and A+, AA- and Aa2 respectively as of June 30, 2012.

(3) Capital Assets

Following is a summary of the capital assets activity for the year ended June 30, 2013 and June 30, 2012 respectively:

Capital Assets

(Expressed in thousands)

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

Capital Assets
(Expressed in thousands)

Description	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Nondepreciable assets:				
Land	$ 197,288	$ 10,115	$ -	$ 207,403
Construction-in-progress	28,864	36,660	(17,814)	47,710
Depreciable assets:				
Land improvements	7,650	-	-	7,650
Buildings and structures	508,049	4,813	(1,064)	511,798
Machinery and equipment	64,587	3,840	(246)	68,181
Roads and parking lots	90,209	62	-	90,271
Total assets	896,647	55,490	(19,124)	933,013
Accumulated depreciation:				
Land improvements	(5,016)	(386)	-	(5,402)
Buildings and structures	(301,557)	(11,174)	1,064	(311,667)
Machinery and equipment	(36,053)	(4,841)	212	(40,682)
Roads and parking lots	(71,589)	(2,620)	-	(74,209)
Capital assets, net	(414,215)	(19,021)	1,276	(431,960)
	$ 482,432	$ 36,469	$ (17,848)	$ 501,053

The District recognized depreciation expense of $18.9 million and $19.0 million for the years ended June 30, 2013 and 2012, 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 year ended June 30, 2013 and 2012, respectively:

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

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012	Amounts due within one year
Notes:					
SDCRAA promissory note	$ 43,993,521	$ -	$ (1,290,221)	$ 42,703,300	$ 1,369,637
Pond 20 note - SDCRAA	616,953	-	(405,893)	211,060	211,060
Master tax-exempt lease/purchase agreement	1,930,837	-	(657,360)	1,273,477	627,560
Revenue Bonds:					
Series A and B 2004 bonds payable	42,100,000	-	(1,420,000)	40,680,000	1,490,000
Series A and B 2004 bonds premium	1,368,152	-	(139,560)	1,228,592	-
Total notes and bonds	90,009,463	-	(3,913,034)	86,096,429	3,698,257
Other noncurrent liabilities:					
Deferred Income - Other	97,408	7,842	(3,781)	101,469	-
OPEB Obligation	14,538,752	5,371,485	-	19,910,237	-
Accrued leave	5,039,357	413,331	-	5,452,688	3,915,191
South Bay Power Plant remediation	19,383,506	-	(5,375,809)	14,007,697	-
Total other noncurrent liabilities	39,059,023	5,792,658	(5,379,590)	39,472,091	3,915,191
Total long term liabilities	$ 129,068,486	$ 5,792,658	$ (9,292,624)	$ 125,568,520	$ 7,613,448

The District's required debt service payments for the bonds and notes for fiscal years ending June 30, 2013 excluding the bond premium, are as follows:

	Principal	Interest	Total Debt Service
2014	$ 4,512,813	$ 4,168,367	$ 8,681,180
2015	4,028,512	3,972,981	8,001,493
2016	4,183,986	3,816,757	8,000,743
2017	4,350,491	3,649,852	8,000,343
2018	4,422,251	3,468,399	7,890,650
2019-2023	21,327,065	14,120,523	35,447,588
2024-2028	27,488,274	7,757,569	35,245,843
2029-2031	14,996,747	945,837	15,942,584
Total	$ 85,310,139	$ 41,900,285	$ 127,210,424

(b) Notes Payable

<u>SDCRAA Promissory Note</u>

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

<u>Pond 20 Note - SDCRAA</u>

The Airport Authority Act specified that Pond 20 real estate in the South Bay would remain District property. Pond 20 is a portion of the land acquired as part of the Western Salt Company, Naval Training Center (NTC) acquisition in 1999, which was intended to provide for mitigation for future expansion of the airport. As part of the transfer of the airport to the SDCRAA on January 1, 2003, the District began repayment to the SDCRAA for the fair market value of the Pond 20 property based upon an appraisal of $2.4 million. The payment schedule was a fixed, ten-year payment plan with interest based upon the prime rate plus 1% on January 1, 2003. The appraised value of Pond 20 was one of a number of items under dispute between the District and the SDCRAA. As a result of the June 1, 2004 settlement agreement, the parties agreed the value of Pond 20 would be the average value of the District's $2.4 million appraisal and the SDCRAA appraisal of $4.3 million. Accordingly, the note payable to SDCRAA was increased to $3.3 million. The fixed, ten-year payment plan remained unchanged but the interest rate was set to a fixed rate of 5.25% per annum, effective retroactively to January 1, 2003. Because the initial payments made by the District to the SDCRAA were less than the recalculated amortization schedule, in June 2004 the District made a lump-sum payment of principal and interest of $0.2 million to the SDCRAA to ensure repayment of the revised note amount during the agreed upon ten-year amortization period. As of June 30, 2013, the Pond 20 note has been paid in full.

Master Tax-Exempt Lease/Purchase Agreement

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

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

The District has entered into a capital lease for phone and network equipment. The value of capital assets acquired under the leasing arrangement as of June 30, 2013 and 2012, is as follows:

Equipment Description	Gross Value	Accumulated Depreciation	Net Book Value June 30, 2013
Phone Infrastructure System	$ 2,909,769	$ 1,225,149	$ 1,684,620
Storage Area Network Equipment	647,756	272,663	375,093
Total	$ 3,557,525	$ 1,497,812	$ 2,059,713

Equipment Description	Gross Value	Accumulated Depreciation	Net Book Value June 30, 2012
Phone Infrastructure System	$ 2,909,769	$ 861,427	$ 2,048,342
Storage Area Network Equipment	647,756	191,693	456,063
Total	$ 3,557,525	$ 1,053,120	$ 2,504,405

(c) Revenue Bonds and Pledge of Revenues

On October 28, 2004, the District issued $49.5 million (par value) of Series 2004A and 2004B Revenue Bonds (“Bonds”), which are secured by a pledge and lien on net pledged revenues. The Bonds’ remaining principal and interest requirement for June 30, 2013 and 2012 were $57.9 million and $63.5 million respectively.

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

The 2004A and 2004B Bonds include serial and term bonds, with mandatory sinking fund requirements. Principal payments remaining on the 2004A serial bonds are $1,570,000 and

$1,650,000. Term bonds outstanding on the Series 2004A Bonds are $3,520,000 and $5,900,000, due on September 1, 2016 and September 1, 2019, respectively. Mandatory sinking fund payments related to the term bonds range from $1,725,000 to $2,040,000. Sinking fund payments are due annually on September 1, 2016 through September 1, 2019.

Principal payments remaining on the 2004B bonds total $26,550,000. Serial bonds range in maturity from $50,000 to $2,530,000, with maturity dates ranging from September 1, 2019 to September 1, 2029. Term bonds outstanding on the Series 2004B Bonds are $14,280,000, due on September 1, 2029. Mandatory sinking fund payments related to the term bonds range from $2,690,000 to $3,125,000. Sinking fund payments are due annually on September 1, 2025 through September 1, 2029.

Pledged revenues for the period ending June 30, 2013, totaled $132.7 million, which represents approximately 89.6% of total District revenues and 229.1% of the Bonds' remaining principal and interest requirements compared to $133.7 million for the year ended June 30, 2012. Net pledged revenues for the period ending June 30, 2013 totaled $16.7 million, which represents 486.0% of the Bonds' annual principal and interest requirements compared to $12.0 million for the year ended June 30, 2012.

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

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

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

The First Amendment also revised the scope of the First Phase to include an approximately two-acre public park/plaza to be designed and constructed within a l50-foot setback from North Harbor Drive along Lane Field, to be designed to a quality similar to the public spaces to be constructed as part of the First Phase (the "Setback Park/Plaza"). The District has an agreement with the developers of Lane Field to design and construct the Setback Park/Plaza at their sole expense. If, and only if, the developer of the adjacent Lane Field site fails to timely design and commence construction of the Setback Park/Plaza, the District shall design and commence construction of the Setback Park/Plaza, and the District and Civic San Diego shall each divide the actual costs of the Setback Park/Plaza equally. The First Amendment set an estimated cost for the Setback Park/Plaza at approximately $6.0 million, which the District shall advance unless Civic San Diego agrees otherwise in writing, and the District shall cause its construction as provided in the First Phase coastal development permit. The District's commitment for the First Phase, without the Setback Park/Plaza, is $8.6 million plus interest estimated at $0.4 million, for a total of approximately $9.0 million. The total District's share on the proposed project budget for the First Phase, without the Setback Park/Plaza, is $14.7 million, which includes the District share of $14.3 million and interest estimated at $0.4 million. Additionally the Agency acting through CCDC agreed to contribute up to $1.0 million for the design and construction of the Broadway Pier Surface improvements to provide a visual connection from the NEVP to areas on the pier that will be available to the public.

The District will repay the Civic San Diego advances using 50% of any and all lease/income payments received by the District from Lane Field. In the event the Lane Field lease is delayed beyond June 13, 2013, the District shall begin annually to repay the Civic San Diego advances at the lesser of $850,000 or 50% of revenue received from Lane Field. The District may prepay any advances anytime. The District made the first repayment of $850,000 in August 2013.

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

Six months after the completion of the First Phase, the District will establish a separate maintenance reserve (the "First Phase Maintenance Reserve") and deposit each year an amount of $400,000 escalated at 3% representing the incremental maintenance costs, which amount will be increased to reflect the maintenance costs of Setback Park/Plaza. The District shall also deposit to the First Phase Maintenance Reserve annually $150,000 escalated at 3%, beginning six months after completion of the First Phase, representing the current costs of maintenance.

(e) Accrued Leave

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

(f) South Bay Power Plant Site Demolition and Remediation

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

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

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

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

Also in fiscal year 1999, the California State Legislature appropriated $15.0 million to assist the District in mitigating environmental and community issues associated with the Plant. The District deposited $15.0 million into the Property Escrow Account, which was initially established by the District and Duke South Bay. The escrow funds together with their earnings are to be retained in the Property Escrow Account to be used for the "End of Term Actions" as described in the Lease, including decommissioning, demolition, and remediation of the Plant facility and site. The balance in the property escrow account after drawdown and income on investments as of June 30, 2013 and 2012 were $10.5 million and $14.0 million, respectively. This amount is reported in the statement of net position as restricted assets and also reported as a noncurrent liability payable from restricted assets. Costs associated with decommissioning and demolition of the plant in excess of amounts available in the escrow account are the responsibility of Dynegy. Dynegy and SDG&E have allocated responsibilities between themselves for the cost and performance of the environmental remediation of the Plant and site. Pursuant to the lease document and other agreements, Dynegy is required to decommission, dismantle, remove the facility and improvements, and return the Plant site free and clear of all structures and improvements.

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

On February 2, 2013, the above ground superstructure for the Plant was demolished. Further subsurface demolition and remediation is currently being entitled through various regulatory agencies. Dynegy anticipates commencing the subsurface demolition in the upcoming months. Future remediation of the property will require additional entitlements with additional regulatory oversight. Once the property has been fully remediated, the future use will include active and passive parks and industrial pads.

(5) San Diego Convention Center

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

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

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

During fiscal year 1997, the District incurred expenses of $9.3 million, including a payment to the City of $9.0 million toward the planning and design costs for the Expansion Project and $0.3 million of District costs for the Expansion Project. The MOU provides that the $9.0 million payment to the City would be applied toward the 19th and the 20th annual payments.

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

The Support Agreement provides for a payment of $9.0 million to the City, in lieu of the 17th and 18th annual payments required under the MOU upon the sale of bonds to finance the construction of the Expansion Project and an annual payment of $4.5 million for 16 years beginning on June 30, 1999. On September 17, 1998, the lease revenue bonds were issued to finance the construction of the Expansion Project. The debt obligation for the bonds was structured as the City's sole legal responsibility. On September 21, 1998, $9.0 million, less the costs incurred by the District for the Expansion Project in the amount of $0.3 million, totaling $8.7 million, was paid to the City in accordance with the terms of the Support Agreement. On June 30, 1999, the District accrued $4.5 million representing the first annual payment, which was subsequently paid on July 1, 1999. Each year thereafter, beginning with fiscal year 2000, an annual payment of $4.5 million has been made by the District in accordance with the terms of the Support Agreement. Under this agreement, the amount that has been paid to the City of San Diego as of June 30, 2013 and 2012 was $85.5 million and $81.0 million, respectively. The annual payments will be completed by June 30, 2014.

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

(6) South Bay Cities

In June 1995, the BPC approved a Memorandum of Understanding for each of the District's South Bay cities of Coronado, Chula Vista, National City, and Imperial Beach (collectively, the South Bay MOU). The South Bay MOU provides that the District shall annually set aside $9.0 million for each of the seven years beginning July 1, 1994 to be expended for certain District projects, as shown in the Tidelands Capital Improvement Program (CIP) adopted by the BPC on April 26, 1994. The total unawarded contract cost is periodically adjusted for inflation using the Building Cost Index (BCI). In total, the District had set aside, expended, or committed to expend a total amount of $95.6 million under the MOU, which includes the initial set aside of $63.3 million, BCI escalation of $13.5 million and $18.8 million of additional funding from the CIP. The amount that remains unexpended as of June 30, 2013 and 2012 was $8.2 million and $8.8 million, respectively.

(7) Defined Benefit Pension Plan

(a) Plan Description

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

(b) Funding Policy

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

All or part of the member contribution rate is subject to potential offset. For employees hired prior to October 1, 2006, the offset rates, expressed as a percentage of compensation, are 8.8% for safety employees, 8.5% for management employees, and 7.0% for all other employees. For non-safety employees hired on or after October 1, 2006, the offset rates are 7.5% for management employees and 6.0% for all others. Employees hired after January 1, 2009, other than safety, are not eligible to participate in a new defined benefit plan until the completion of 5 years of service. However, they are able to contribute to a 457 Deferred Compensation plan, where the District will match up to 4% of salary in a 401(a) plan.

The District contributes at an actuarially determined rate. The rates for fiscal years 2012 and 2013, expressed as a percentage of covered payroll, are as follows:

Actuarial Contribution Rates

(Actuarial valuation approved by SDCERS)

	FY12	**FY13**
General Members	32.43%	37.82%
Safety Members	34.71%	40.76%
Weighted Total	33.16%	38.82%

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

(c) Annual Pension Cost

For fiscal years ended June 30, 2013 and June 30, 2012, the District recorded a total annual pension cost of $13.2 million and $12.6 million, respectively. These amounts represent the payment in full of the District's annual required contribution (ARC). The ARC was determined as part of an actuarial valuation using the Entry Age Normal funding method. The District's annual pension cost for fiscal year 2013 is based on the SDCERS June 30, 2011 actuarial valuation.

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

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

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

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

[(3)] 9 years for the outstanding balance of the 2007 unfunded actuarial liability, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.

[(4)] The investment return assumption was lowered from 7.75% to 7.50%.

[(5)] Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed. These increases are not used in the amortization o UPD's unfunded actuarial liability.

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

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

	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
Year ended June 30:			
2011	$ 11,500,000	100%	$ —
2012	12,600,000	100%	—
2013	13,200,000	100%	—

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

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

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2012	$277,822	$382,013	($104,192)	72.7%	$34,542	301.6%

Entry Age Normal (EAN) method used.

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

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

(8) Other Post Employment Benefits (OPEB)

Plan Description and Funding Policy:

In addition to pension benefits described in Note 7, 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. A separate report is 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 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, 2013 and 2012, 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 of the employer (ARC), the District retained Sunlin Consulting, LLP, to prepare the actuarial valuation in accordance with the parameters of GASB Statement No. 45. The UAAL as of July 1, 2012 was $90,509,581 and the ARC for the fiscal year ended June 30, 2013 was $8,482,400. The District recognized $8,120,465 as OPEB expense for the year ended June 30, 2013. Of this amount, $3,246,000 was the total contributions made and $4,874,465 was added to the net OPEB liability.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 8,482,400
Interest on net OPEB obligation	895,961
Adjustment to annual required contribution	(1,257,896)
Annual OPEB cost (expense)	8,120,465
Contributions made	(3,246,000)
Increase in net OPEB obligation	4,874,465
Net OPEB obligation - beginning of year	19,910,237
Net OPEB obligation - end of year	$ 24,784,702

The District's annual OPEB cost, the percentage of annual OPEB cost contributed during the year to the plan, and the net OPEB obligation for 2011, 2012, and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	$ 7,908,074	36%	$ 14,538,752
6/30/2012	7,908,074	32%	19,910,237
6/30/2013	8,120,465	40%	24,784,702

Funded Status and Funding Progress:

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

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

Actuarial 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 01, 2012	$ -	$ 90,510	$ (90,510)	0.0%	$ 41,099	220.2%

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

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

The required annual contribution and unfunded liability was determined as part of the June 30, 2012 actuarial valuation that assumes: (a) 4.50% investment rate of return, and (b) annual cost increase ranging from an initial rate of 9% to an ultimate rate of 5% over an eight year period. The valuation was performed using the projected unit credit and the UAAL is being amortized over 26 years on a level dollar basis.

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

(9) Employees' Deferred Compensation Plan

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

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*, which the District has implemented effective July 1, 1998, employee assets are not reflected in the District's basic financial statements.

(10) 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, 2013, were as follows:

Self-Insured Retentions/Deductibles
(as of June 30, 2013)

Coverage	Self-insured retention/ deductible
Excess liability	$ 1,000,000
Workers' compensation	500,000
Employment practices liability	250,000
Police professional liability	250,000
Public officials liability	250,000
Property insurance	100,000
Fiduciary liability	25,000
Crime/public employee dishonesty	5,000
Marine protection and indemnity	5,000
Automobile Liability	n/a

Since July 1, 2004, the District's has participated in a loss-sensitive workers' compensation program and is responsible for the first $500,000 of any workers' compensation claim. As of June 30, 2013, the District's is required to fund an escrow account totaling $2.6 million, which is held as security in the unlikely event the District's fails to meet its required obligations. The escrow account is not drawn upon for the deductible payments. There have not been any significant reductions in insurance coverage from the prior year and settled claims have not exceeded coverage for each of the last three years.

At June 30, 2013 the District had accrued $1,976,196 for workers' compensation claims liabilities, which include anticipated future expenses on open compensation claims based on estimates provided by the District's workers' compensation carrier. The insurance carrier determines the reserves required to pay for future liabilities by estimating the probable ultimate cost for the life of each claim, including consideration of any incremental claim adjustment expenses. This is done by estimating the three categories of exposure on each claim: temporary or permanent disability, medical expenses, and legal and other associated claims expenses. However, the District's ultimate exposure is limited to the amount of the self-insured retention for each claim as identified in the above table. These reserves are adjusted as the claim develops over time. While the ultimate losses incurred are dependent on future developments, District management believe that the accrued liability is adequate to cover such losses. Changes in the District's claims liabilities for the years ended June 30, 2013 and 2012 were as follows:

Fiscal Year	Claims Liability at Beginning of Period	Claims Incurred During the Period, and Changes in Estimates	Claims Payment	Claims Liability at End of Period
FY 2012	$ 1,541,090	$ 815,922	$ (843,485)	$ 1,513,527
FY 2013	$ 1,513,527	$ 1,197,894	$ (735,225)	$ 1,976,196

(11) 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. A majority of the lease agreements are not cancelable and permit the District to periodically adjust rents. In addition, many of these leases are secured by letters of credit, which totaled approximately $2.4 million at June 30, 2013. In the normal course of operations, it is expected that all significant expiring leases will be renewed or replaced by similar agreements.

The District leases its land and facilities on both a fixed (i.e., flat) and variable (i.e., percentage) basis. Percentage rentals are received on the basis of percentages of sales and are protected by stipulated minimums. Such percentage rentals totaled approximately $52.9 million in 2013 and $50.9 million in 2012 excluding the minimum annual guarantees for the marine terminal facilities which are accounted for in wharfage revenue. Rentals received under flat rate leases, including marine terminal facilities, totaled approximately $37.1 million in 2013 and $37.1 million in 2012.

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

Year Ending June 30:	
2014	$ 74,513,833
2015	73,220,382
2016	73,193,372
2017	74,677,975
2018	74,309,688
2019-2023	345,418,494
2024-2028	321,909,852
2029-2033	287,139,674
2034-2038	260,736,374
2039-2043	211,919,214
2044-2048	164,996,650
2049-2053	156,307,528
2054-2058	152,003,487
2059-2063	147,095,866
2064-2068	113,567,600
2069-2073	47,583,380
2074-2078	10,145,000
2079-2083	2,874,416
Total	$ 2,591,612,785

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

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

(12) 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 10 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) Hybrid Vehicles

In fiscal year 2008, the District entered into a lease agreement with Enterprise Fleet Management to lease 10 hybrid vehicles for use by District staff. The lease term is for five years and the annual amount to be paid for the first year is $59,233 and each year after is $59,839 for a total of $298,589 over five years. Due to the California sales tax increase of 1% from 7.75% to 8.75% that occurred on April 1, 2009, an amendment to the lease agreement increased the expenditure for years two through five. On March 5, 2013, the District extended the agreement with Enterprise Fleet Management for an additional two years with annual payments of $59,839. The hybrid lease, which originally covered the period of May 1, 2012 to April 30, 2013, was extended to April 2015.

(d) Compressed Natural Gas (CNG) Vehicles

In fiscal year 2009, the District amended the lease agreement with Enterprise Fleet Management to lease an additional 3 vehicles for use by Harbor Police Department staff. The lease term is for five years and the annual amount to be paid for the first year is $16,688 and each year after for a total of $83,440 over five years.

(e) Electric Vehicles

In fiscal year 2013, the District amended the lease agreement with Enterprise Fleet Management to lease an additional 2 vehicles for use by District staff. The lease term is for three years and the annual amount to be paid for the first year is $20,468 and each year after for a total of $61,404 over three years.

Future rent payments under the above operating lease agreements as of June 30, 2013 are as follows:

Year Ending June 30:		
2014	$	267,815
2015		251,127
2016		187,876
2017		170,820
2018		170,820
2019-2023		854,100
2024-2028		747,300
2029-2033		747,300
2034-2038		747,300
2039-2043		747,300
2044-2048		747,300
2049-2053		747,300
2054-2058		747,300
2059-2063		747,300
2064-2068		747,300
2069-2073		74,730
Total	$	8,702,988

Total rental expenses for the above mentioned operating leases for the year ended June 30, 2013 and 2012 was approximately $263,000 and $242,000, respectively.

(13) Commitments and Contingencies

(a) Commitments

As of June 30, 2013, the District had significant commitments for capital expenditures and other matters as described below:

i. Capital Improvement Program (CIP): Beginning in fiscal year 1992, the BPC approved a five-year CIP for the development of certain capital outlay projects. Each project in the plan is reviewed and authorized by the BPC in accordance with Board Policy 120, Capital Improvement Program. The CIP is renewed every five (5) years, and annually the program is reviewed and revised as appropriate. On April 4, 2012, the FY 2009-2013 CIP was amended and approved by the Board. On June 7, 2012, the new FY 2014-2018 CIP was approved. As of June 30, 2013, the remaining cost to complete CIP projects which were approved to be funded from existing and future cash resources, excluding projects funded by grants, donations, and contributions, was approximately $44.9 million compared to approximately $37.5 million as of June 30, 2012.

   Funds have been designated for the unpaid contractual portion of CIP projects that are not funded by grants, donations, or contributions. The designated funds are classified in the accompanying statement of net position as cash and investments designated for specific capital projects and commitments with a total balance of $6.2 million.

ii. Fire, Police, Emergency Medical, and Lifeguard Services: The District enters into contracts with the five member cities for annual fire, police, and emergency medical services on the non-taxpaying tidelands. Additionally, the District contracts with Imperial Beach for lifeguard services on the non-taxpaying tidelands. The combined cost for these services was $7.1 million for fiscal year 2013 compared to $6.1 million in fiscal year 2012. In addition, the District has a contract with the City of Imperial Beach for tidelands maintenance services at a cost of $0.9 million for fiscal year 2013 an increase from $0.8 million in fiscal year 2012.

(b) Contingencies

As of June 30, 2013, the District was subject to contingencies arising from legal and environmental matters as described below:

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

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

(a) Contamination at NASSCO and Southwest Marine leasehold vicinity: The District is involved in a multi-party environmental litigation brought under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the California Hazardous Substances Account Act (HSAA), and numerous other state and federal laws, styled as City of San Diego v. National Steel and Shipbuilding Company, et al., (S.D. Cal.), filed on October 19, 2009 in federal court in San Diego (Lawsuit). The Lawsuit relates to the alleged liabilities of the parties to the Lawsuit for the cleanup of marine sediment contamination at what is known and referred to as the "Shipyard Sediment Site" located in a portion of San Diego Bay in San Diego, California (Site). The Site is the subject of a Cleanup and

Abatement Order (CAO) adopted by the RWQCB in March 2012. The District was named as a discharger in the CAO based upon its status as the statutorily-mandated trustee of the subject tidelands, which are alleged to have been contaminated by tenants of the District (and others) with a variety of pollutants over many years of operations of shipbuilding and power plant facilities, City of San Diego (City) storm drains, and a United States Navy shipyard. The District was also named as a discharger on the grounds that it, along with the City, is a co-permittee of the MS4 storm drains that discharge into the Site. Consequently, the District is named as a defendant and cross-defendant (and has brought its own counterclaim and cross-claims) in the complaint and various cross-claims filed in the Lawsuit, which seek to allocate liability among the parties. Although the potential cleanup of the sediments was at one time estimated by the RWQCB to exceed $120 million, more recent estimates are in the range of $75 million. The claims against the District are that it is responsible for a share of the costs.

The District currently is engaged in mediation-related settlement discussions with certain parties. The District is in active litigation with discovery and motion practice with respect to other parties. At the present time the District's share of liability cannot be estimated. The District anticipates that insurance will cover the liability incurred in this matter.

(b) Former Campbell Shipyard: This matter involves industrial contamination from shipyard activities, which impacted the land, groundwater, and sediments at the site. In 1995, the RWQCB issued a Clean-up and Abatement Order (CAO 95-21) that named Campbell Industries, a former District tenant, and its parent, Marine Construction and Design Company. The cleanup has been completed and the District is now implementing the long-term Monitoring and Reporting Program. The best estimate for the cost at this time is $0.6 million based on the current awarded contract. Costs for each future fiscal year are not estimated.

(c) Shelter Island Yacht Basin (SIYB): In 1996, the Shelter Island Yacht Basin (SIYB) portion of San Diego Bay was placed on the Clean Water Act section 303(d) list of impaired waters due to elevated levels of dissolved copper in the water column. A Total Maximum Daily Load (TMDL) Study was conducted for the site and found that the majority of the copper was attributed to boat hull paint. The TMDL requires a 76% overall reduction of residual copper loading to SIYB over a 17-year staged compliance schedule period. The TMDL identified the District, the SIYB marina owners/operators, persons owning boats moored in SIYB, and SIYB underwater hull cleaners as accountable for the discharges of copper from boat hull antifouling paints to the waters of the SIYB.

The District has been actively involved in the search for alternative hull coatings, since this level of reduction can most likely be achieved only by using alternative paints. To this end, the US Environmental Protection Agency (USEPA) has funded the District to conduct a project to identify these alternative paints. In 2008, the District funded a second study, through San Diego State University, to identify other possible sources of alternative paints. The District also funded a third project in 2009 to test alternative paints not evaluated in the USEPA funded project. At the same time, the District and the tenants of the SIYB cooperatively developed the SIYB Dissolved Copper TMDL Implementation Plan approach to obtain TMDL compliance and describing 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 has complied 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% reduction mandated by the RWQCB. The District is currently working on the next TMDL target of a 40% reduction by 2017 and developing activities to meet that goal.

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

Currently, the parties are conducting field sampling of the sediment under the RWQCB’s oversight. The parties are proceeding under the Water Board’s Sediment Quality Objectives to attain clean up. The soil and groundwater investigations that were also subject to this action have been concluded. All parties are also subject to an Imminent or Substantial Endangerment Determination and Remedial Action Order issued by the Department of Toxic Substance Control (DTSC) dated 1998. However, recently the DTSC transferred oversight responsibilities of the site to the RWQCB. Currently, litigation is stayed pending site investigations.

The District’s liability under the environmental law arises from its status as landowner of the contaminated site. However, since the District has not directly caused the environmental contamination, the allocation of damages should be less significant in comparison to the other defendants. In the past, the parties operated under a cost sharing agreement for the site investigation costs. The District is now using its own environmental consultant due to differing interests among the parties. The District’s historical insurance will pay for this investigation. It is anticipated that this insurance will also significantly, if not entirely, cover the District’s ultimate liability at the site when the matter is resolved. Therefore, no liability has been recorded in the District’s basic financial statements as of June 30, 2013.

(e) Redevelopment of the Former BF Goodrich South Campus Site: In 1999 the District began the redevelopment of the former BF Goodrich South Campus Site, which was formerly an aircraft plant which operated at the site since the 1940’s. The South Campus Site consists of historic tidelands that were leased to BF Goodrich and uplands, formerly owned by BF Goodrich, that were exchanged with the District through a Land Transfer Agreement. The RWQCB issued a clean-up and abatement order to BF Goodrich to address the site contaminant discharges to nearby wetland areas. The District’s Relocation Agreement, as amended, with BF Goodrich includes District contribution towards the site clean-up, and Goodrich’s support for the site redevelopment. To date the District has contributed $2.5 million towards site clean-up under this Agreement.

The District's Relocation Agreement, as amended, with United Technology Aerospace System (UTAS) includes District contribution towards the site clean-up, and UTAS' support for the site redevelopment. Currently, the RWQCB is drafting a revised Cleanup and Abatement Order, and reviewing the L Ditch closure report. The RWQCB has approved the Human Health Risk Assessment, the Construction Environmental Monitoring Plan for H Street, and the Demolition Environmental Monitoring Plan. The District and UTAS' joint consultant are completing an additional sampling plan/leachability test and working towards completing a Remedial Action Plan for the Pacifica Exchange Parcel.

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 prevailed on a motion in the trial court. The matter was appealed and was remanded to the Superior Court after the Court of Appeals found a triable issue of material fact rendering summary judgment inappropriate. Mediation took place on August 1, 2013 but no settlement was reached. The parties are now engaging in discovery. Depositions of key witnesses are presently taking place. A motion to bifurcate the trial was granted so that only the boundary determination issue will be heard at the February 2014 trial, followed by a later separate trial on liability and damages.

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

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

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

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

Concurrently, the District sought coverage for the claims alleged in the Hensel Phelps Action from ACE American Insurance Company (ACE), which provides coverage to the District for such claims under a $5.0 million Public Officials Liability policy. However, ACE wrongly denied coverage. Accordingly, on August 9, 2013 the District initiated

Case No. 37-2013-00062180-CU-IC-CTL entitled San Diego Unified Port District v. ACE American Insurance Company by filing its complaint against ACE alleging causes action for declaratory relief, breach of contract, and breach of the implied covenant of good faith and fair dealing.

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

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

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

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

iv. A wrongful death claim has been filed against the District by relatives of a former TDY employee (decedent) who worked at the property from 1967 to 2010. The plaintiffs contend the District as lessor of the property is responsible for the decedent's exposure to toxic chemicals used by TDY for numerous years, resulting in his being diagnosed with non-Hodgkins' lymphoma and his later death. The plaintiffs are also suing TDY on similar claims and have indicated interests in potentially bringing in the chemical manufacturers and distributors as defendants. The District believes plaintiffs face serious liability issues, including proof that the chemicals at issue actually caused the decedent's illness, that the District had notice of the alleged risk of harm and that the risk constituted a dangerous condition of public property. While it is early in the litigation, we currently estimate there is an 80% chance of a defense verdict, and we also believe that the District should largely, if not entirely, be indemnified from any liability by TDY or the District's insurance coverage.

v. The District has certified claims against it and is named as a defendant in certain other legal actions arising from transactions conducted in the ordinary course of business. The District's legal counsel has indicated that it is not currently possible to estimate the amount or range of potential loss to the District related to these cases. Therefore, no liability has been recorded in the District's basic financial statements as of June 30, 2013 for these claims.

(14) Subsequent Events

On September 10, 2013, the BPC approved the refunding of the District's outstanding 2004 Series B revenue bonds and related matters. On November 6, 2013, the District entered into a Bond Purchase Agreement with Citibank (the Underwriter). The agreement consisted of the District's issuance of $25.5 million principal amount of the 2013 Series A refunding revenue bonds at a purchase price by the Underwriter of $27.9 million (including principal amount of the bonds plus a net original issue premium of $2.6 million). The 2013 Series A refunding revenue bonds mature annually from September 1, 2020 to September 1, 2029. This refunding transaction closed on November 20, 2013.

On October 24, 2013, Fitch Ratings assigned an A+ rating to the 2013 Series A refunding revenue bonds issued by the District and affirmed the A+ rating on the 2004 Series A outstanding bonds. The rating outlook on all bonds is stable. On October 25, 2013, Standard & Poor's Rating Services revised the District's rating outlook to stable from negative and affirmed its A+ long-term and underlying ratings on the District's outstanding 2004 Series A revenue bonds. At the same time, Standard & Poor's assigned an A+ long-term rating to the 2013 Series A refunding revenue bonds.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SAN DIEGO UNIFIED PORT DISTRICT
Required Supplementary Information - (Unaudited)
Schedules of Funding Progress

Defined Benefit Pension Plan Schedule of funding progress
(Expressed in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2010	$ 233,788	$ 310,467	$ (76,679)	75.3%	$ 39,165	195.8%
June 30, 2011	259,315	354,837	(95,522)	73.1%	34,633	275.8%
June 30, 2012	277,822	382,013	(104,192)	72.7%	34,542	301.6%

Other Post Employment 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 01, 2008	$ -	$ 67,829	$ (67,829)	0.0%	$ 43,203	157.0%
July 01, 2010	-	80,436	(80,436)	0.0%	42,918	187.4%
July 01, 2012	-	90,510	(90,510)	0.0%	41,099	220.2%