

# Port of Redwood City

Redwood City, California

*Basic Financial Statements  
and Independent Auditors' Report*

*For the years ended June 30, 2015 and 2014*

**Port of Redwood City**  
**Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
of the Port of Redwood City  
Redwood City, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Port of Redwood City, California (Port), a department of the City of Redwood City, California (City), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Port'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 opinions 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 opinions.

To the Board of Commissioners  
of the Port of Redwood City  
Redwood City, California  
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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Port of Redwood City, California, as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

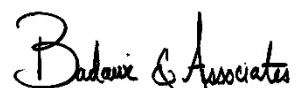
***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10, the schedule of changes in net pension liability and related ratios during the measurement period, the schedule of plan contributions and the schedule of funding progress for the other postemployment benefits plans on pages 38-40, 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 11, 2015, on our consideration of the Port'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 Port's internal control over financial reporting and compliance.



Badawi & Associates  
Certified Public Accountants  
Oakland, California  
December 11, 2015



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The Port of Redwood City has issued its financial statements for the fiscal year ended June 30, 2015 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). This report, Management's Discussion and Analysis, is an overview of the Port's financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements.

### **ACCOUNTING METHOD**

The Port's operations are accounted for as an Enterprise Fund. Enterprise funds are used by municipalities to account for operations which are financed and managed similar to private business enterprises, where the costs and expenses (including depreciation) of providing services to the public on a continuing basis are recovered primarily through user charges. The Port does not receive tax revenues. The Port's revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. All assets and liabilities associated with the activity of the enterprise are included on the Statement of Net Position. The Port is stated as a department in the City of Redwood City's financial statements.

### **THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS**

The Port has only one fund, therefore the Basic Financial Statements do not reflect the activities of multiple funds. The Basic Financial Statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position (Income Statement) and Statement of Cash Flows. Together with this report, the Basic Financial Statements provide information about the significant events, assumptions and decisions which resulted in the financial performance reflected in those statements.

The Statement of Net Position provides information regarding the financial position of the Port, including its capital assets and debts.

The Statement of Activities and Changes in Net Position (Income Statement) provides information regarding the revenues generated by each segment of the Port's business, and the expenses incurred in generating those revenues. The ultimate focus of the income statement is the measurement of profitability as reflected by the amount of net income generated for the fiscal year.

The Statement of Cash Flows provides information regarding the sources and uses of the cash which flowed into and out of the Port as a result of its operations and financing decisions.

## FINANCIAL ACTIVITIES & FISCAL YEAR 2015 HIGHLIGHTS

### The Statement of Net Position

The port business is capital intensive; significant investment in assets is required in order to acquire the land, and construct and maintain the necessary infrastructure and facilities. The acquisition of assets can be funded by cash reserves, debt, or donated capital including grants. In general, debt can be incurred in the form of notes payable and/or bonds payable. A condensed version of the Statement of Net Position is presented in Table A below, which reflects the capital intensity of the Port's business and the changes which occurred between Fiscal Years 2015, 2014, and 2013.

**Table A**

	FY15	FY14	FY15 vs. FY14 Change	FY13	FY14 vs. FY13 Change
<b>Assets</b>					
Current Assets	\$ 16,839,504	\$ 19,601,724	\$ (2,762,220)	\$ 24,578,064	\$ (4,976,340)
Capital Assets, Net	34,585,048	33,225,048	1,360,000	27,811,323	\$ 5,413,725
All Other Assets	432,420	400,000	32,420	400,000	\$ -
<b>Total Assets</b>	<b>\$ 51,856,972</b>	<b>\$ 53,226,772</b>	<b>\$ (1,369,800)</b>	<b>\$ 52,789,387</b>	<b>\$ 437,385</b>
<b>Deferred Outflow of Resources</b>					
Loss on Bond Refunding	267,901	-	-	-	-
Pension Contributions	158,716	-	-	-	-
<b>Total Deferred Outflows</b>	<b>426,617</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>					
Current Liabilities	\$ 1,681,881	\$ 2,939,735	\$ (1,257,854)	\$ 3,602,410	\$ (662,675)
Non-current Liabilities	17,032,403	16,737,575	294,828	17,417,032	\$ (679,457)
<b>Total Liabilities</b>	<b>\$ 18,714,284</b>	<b>\$ 19,677,310</b>	<b>\$ (963,026)</b>	<b>\$ 21,019,442</b>	<b>\$ (1,342,132)</b>
<b>Deferred Inflow of Resources</b>					
Pension Related	323,908	-	-	-	-
<b>Total Deferred Inflows</b>	<b>323,908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>					
Net Investment in					
Capital Assets	\$ 26,334,290	\$ 23,475,092	\$ 2,859,198	\$ 19,882,823	\$ 3,592,269
Restricted for Bebt Service	800,914	1,475,738	(674,824)	1,468,256	\$ 7,482
Unrestricted	6,110,193	8,598,632	(2,488,439)	10,418,866	\$ (1,820,234)
<b>Total Net Position</b>	<b>\$ 33,245,397</b>	<b>\$ 33,549,462</b>	<b>\$ (304,065)</b>	<b>\$ 31,769,945</b>	<b>\$ 1,779,517</b>

The decrease in current assets and increase in net capital assets between June 30, 2015 and June 30, 2014 is primarily due to the expenditure of project fund proceeds from the issuance of Series 2012 Revenue Bonds for the Wharves 1 & 2 replacement project. The construction of the new wharves was completed in November of 2014.

The \$304,065 decrease in FY15 Total Net Position is comprised of:

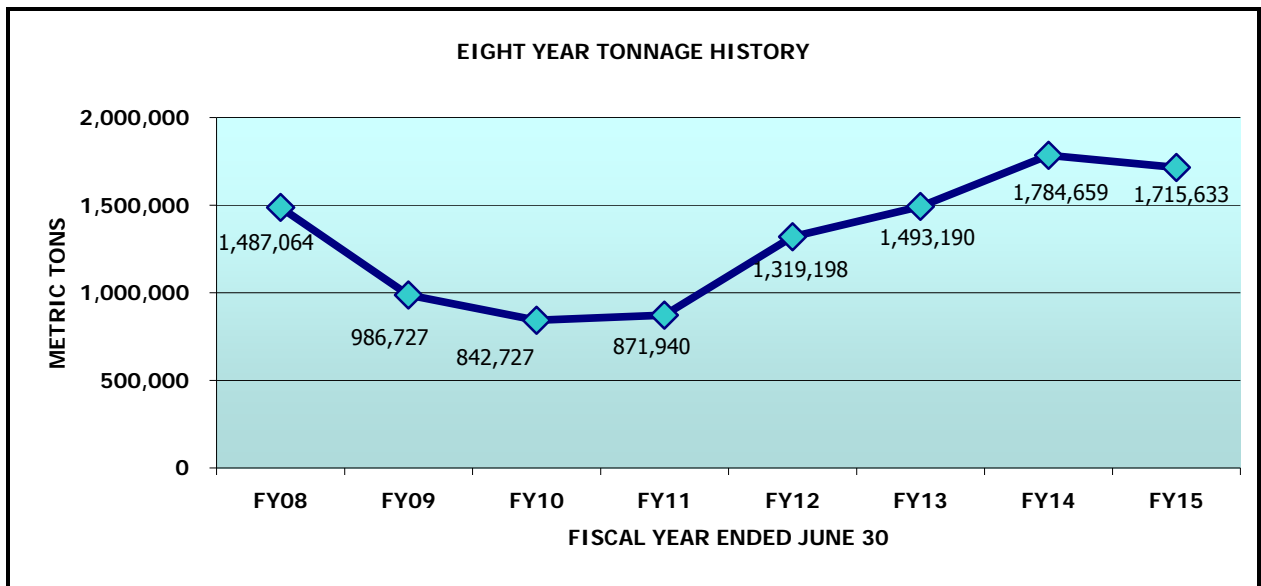
\$ 1,941,196	- Net income for the year
< 403,317 >	- Less subvention to the City of Redwood City.
< 1,841,944 >	- Less Port's contributions paid for pension as of 6/30/2014 (GASB68)
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< \$ 304,065 >	
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## FINANCIAL ACTIVITIES & FISCAL YEAR 2015 HIGHLIGHTS, CONTINUED

### The Statement of Revenues, Expenses & Changes in Net Position (Income Statement)

The Port's business is comprised of three major segments:

- Maritime – activities related to the import and export of waterborne cargos.
- Recreational Boating – activities related to the operation of a public marina, boat launch facility and dry boat storage facility.
- Commercial – activities related to the leasing of land and buildings not directly associated with Maritime activities.



In Fiscal Year 2015 the Port's tonnage was 1,715,633 metric tons, down 3.9% from 1,784,659 metric tons in FY14, but surpassing the volume achieved in FY08 prior to the recession.

The recession resulted in weaker demand for construction materials, especially cement and gypsum in Northern California and the San Francisco Bay Area. The construction industry is cyclical, with periods of growth followed by periods of contraction, however, this normal cycle was severely disrupted by the prolonged weak economy which resulted in declining cargo volumes for a protracted period of time.

The tonnage increases in Fiscal Year 2013 and 2014, fairly stable in 2015, are a positive sign of recovery, however, cement imports which accounted for substantial tonnage volume prior to the recession have not yet resumed. When demand for cement surpasses locally sourced domestic supplies, cement imports are anticipated to resume and increase total tonnage.

## FINANCIAL ACTIVITIES & FISCAL YEAR 2015 HIGHLIGHTS, CONTINUED

### The Statement of Revenues, Expenses & Changes in Net Position (continued)

The Port's Income Statement segregates the revenues and expenses of each of its three major business segments, as well as expenses related to the operation and maintenance of the Port's infrastructure and its administration. Table B, below, is a condensed version of the Income Statement; it summarizes the Port's revenue and expense, splits out other non-operating revenue/(expense) into its component parts, and compares results for Fiscal Years 2015, 2014 and 2013.

**Table B**

	<u>FY15</u>	<u>FY14</u>	<u>FY15 vs. FY14 Change</u>	<u>FY13</u>	<u>FY14 vs. FY13 Change</u>
<b>Revenue</b>					
Operating Revenue	\$ 6,721,955	\$ 6,824,474	\$ (102,519)	\$ 6,262,660	\$ 561,814
Interest Income	47,561	46,316	1,245	51,239	(4,923)
Other Non-Operating Income	192,092	52,656	139,436	46	52,610
<b>Total Revenue</b>	<u>\$ 6,961,608</u>	<u>\$ 6,923,446</u>	<u>\$ 38,162</u>	<u>\$ 6,313,945</u>	<u>\$ 609,501</u>
<b>Expense</b>					
Operations	\$ 2,805,517	\$ 2,795,595	\$ 9,922	\$ 2,899,675	\$ (104,080)
Administration	1,236,631	1,075,818	160,813	1,067,449	8,369
Operating Expense	\$ 4,042,148	\$ 3,871,413	\$ 170,735	\$ 3,967,124	\$ (95,711)
Interest Expense	791,283	847,127	(55,844)	684,334	162,793
Other Non-Operating Expense	186,981	15,921	171,060	616,690	(600,769)
<b>Total Expense</b>	<u>\$ 5,020,412</u>	<u>\$ 4,734,461</u>	<u>\$ 285,951</u>	<u>\$ 5,268,148</u>	<u>\$ (533,687)</u>
Excess (Deficiency) before Contributions, Special & Extraordinary Items & Transfers	\$ 1,941,196	\$ 2,188,985	\$ (247,789)	\$ 1,045,797	\$ 1,143,188
Transfers (Subvention)	(403,317)	(409,468)	6,151	(375,760)	(33,708)
<b>Net Income</b>	<u>\$ 1,537,879</u>	<u>\$ 1,779,517</u>	<u>\$ (241,638)</u>	<u>\$ 670,037</u>	<u>\$ 1,109,480</u>

Slight decrease in cargo tonnage attributed to the Port's operating revenue for Fiscal Year 2015 decrease by 1.5% (or \$102,519) compared to Fiscal Year 2014. The decrease was mainly from the Maritime component of the operating revenue, which was \$191,769. We had only 58 ships call in to our Port that transported 1,715,633 metric tons of cargo versus 64 ships and 1,784,659 in the previous year. But the Port's commercial rental and leases component of operating revenue went up by \$89,250. This was mainly because of increase in rents and new tenants to the Port.

The Charter of the City of Redwood City requires that the Port annually give to the City any surplus funds which, in the judgment of the Board of Port Commissioners, is not needed for Port purposes. This is called subvention; for Fiscal Year 2015 the Port will subvent \$403,317 to the City.

## FINANCIAL ACTIVITIES & FISCAL YEAR 2015 HIGHLIGHTS, CONTINUED

### Capital Assets

At June 30, 2015 the Port had \$51,802,672 in capital assets and \$17,217,624 accumulated depreciation, resulting in net capital assets of \$34,585,048. A summary of the activity and balances in capital assets is presented in Table C below.

**Table C**

	June 30, 2014	Additions & Transfers	Deletions & Transfers	June 30, 2015
Land and Land Improvements	\$ 2,574,066	\$ -	\$ -	\$ 2,574,066
Infrastructure	4,045,440	728,515	-	4,773,955
Recreational Boating Facilities	6,180,972	616,206	-	6,797,178
Terminal & Facilities	15,002,673	17,258,285	-	32,260,958
Furniture, Fixtures & Equipment	334,636	21,364	-	356,000
Channel and Maritime Harbor	1,870,227	-	-	1,870,227
Construction in Progress	19,425,734	3,079,410	(19,334,856)	3,170,288
<b>Total Capital Assets</b>	<b>\$ 49,433,748</b>	<b>\$ 21,703,780</b>	<b>\$ (19,334,856)</b>	<b>\$ 51,802,672</b>
Accumulated Depreciation	(16,208,700)	(1,008,924)	-	(17,217,624)
<b>Capital Assets, Net</b>	<b>\$ 33,225,048</b>	<b>\$ 20,694,856</b>	<b>\$ (19,334,856)</b>	<b>\$ 34,585,048</b>

At June 30, 2015, \$2,128,686 of the \$3,170,288 balance in Construction in Progress pertains to the Channel Deepening Feasibility Study and the remaining \$1,041,602 to the other projects underway including berth dredging, wharves 3, 4 and 5 fender replacement and public access improvements.

## FINANCIAL ACTIVITIES & FISCAL YEAR 2015 HIGHLIGHTS, CONTINUED

### Debt Administration

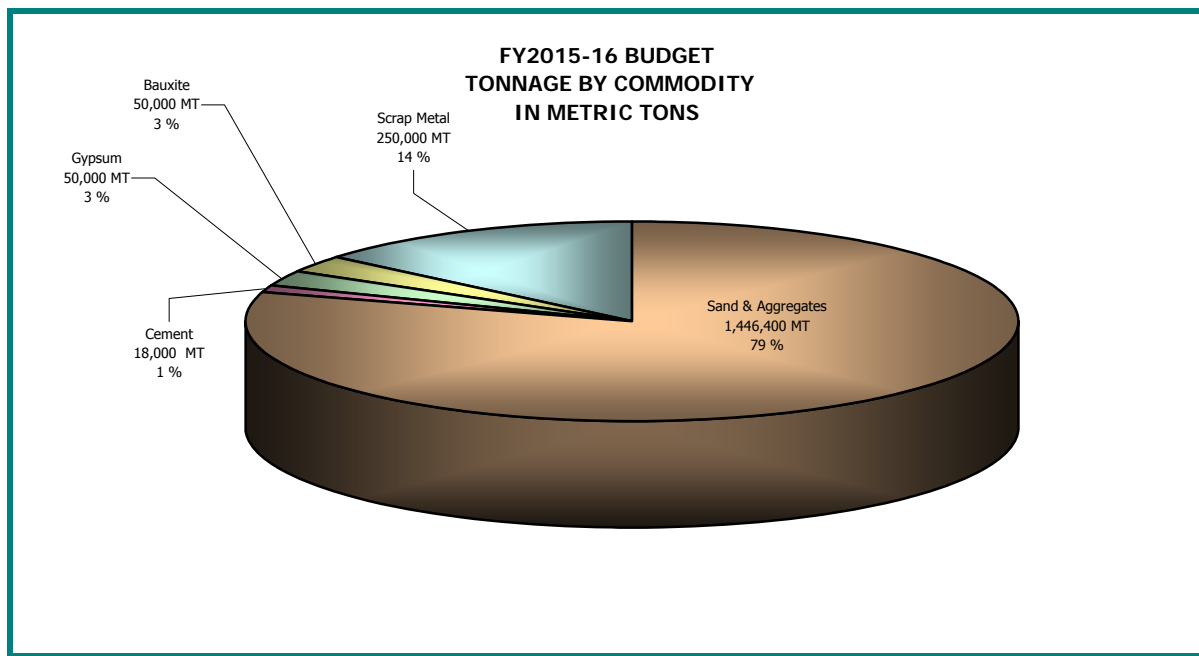
At June 30, 2015, the Port had the following debt obligations:

2012 Port Revenue Bonds – The bonds were issued on June 26, 2012, in the principal amount of \$10,000,000 to partially fund the replacement of Wharves 1 & 2. The remaining principal balance at June 30, 2015 is \$9,008,399. The interest rate is fixed at 4.20% throughout the 20 year term; principal and interest payments are due monthly through June 1, 2032.

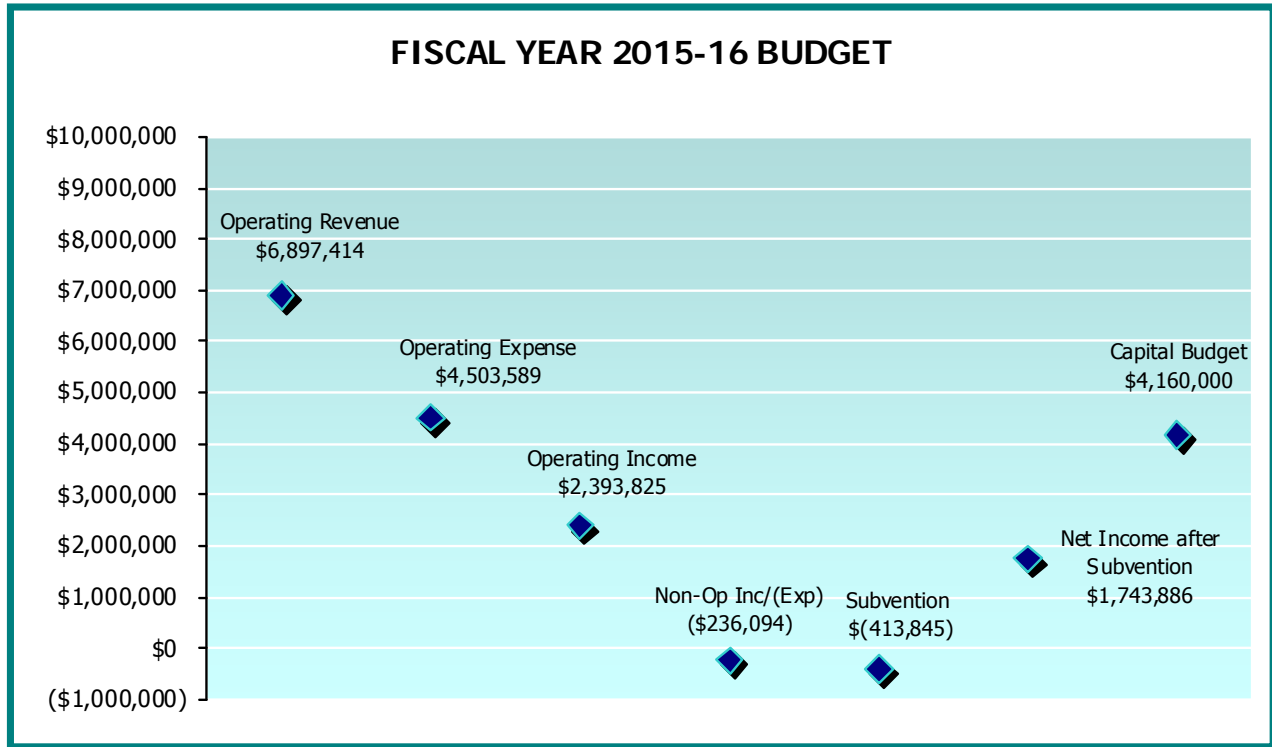
2015 Port Revenue Bonds – The bonds were issued on June 1, 2015, in the principal amount of \$6,940,000 to refund the Revenue Bonds Series 1999. The bonds bear an interest rate between 2.00% and 4.00% and are fully amortized. Principal and interest are payable on June 1 and December 1 of each year throughout the 15 year term. The bonds are secured by and payable from the revenues generated by the Port's operations.

### ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Port's inbound cargos are concentrated in bulk construction materials; export cargo currently includes ferrous scrap metal destined for recycling in Asia. The Port's Fiscal Year 2016 budget for import and export tonnage was based on the expectations of its key customers with regard to their particular markets. At 1,814,400 metric tons, the FY16 tonnage budget is 6% higher than the FY15 budget, reflecting continued increase in demand for construction materials in the Port's region.



ECONOMIC OUTLOOK AND MAJOR INITIATIVES, CONTINUED



Fiscal Year 2015-16 budgeted non-operating income/(expense) of (\$236,094) is comprised of \$47,500 interest income and \$328,750 grant income, less (\$612,344) interest expense.

The \$4.160 million of capital expenditures planned for Fiscal Year 2016 is mainly for the channel deepening and improvement study, which is cost shared between the Port and U.S. Army Corps of Engineers; ship berth maintenance dredging; and ship fender system repairs/replacement at wharves 3, 4 & 5.

The environmental remediation of the nine acre Liquid Bulk Terminal (LBT) site was acknowledged as complete by the California Department of Toxic Substances Control (DTSC) in May, 2009. DTSC determined that semi-annual analytical testing of 8 groundwater monitoring wells, until such time as the results of 6 consecutive tests reflect results within acceptable ranges. The testing performed in June 2015 had acceptable results for all 8 wells. Five more consecutive test results are necessary before DTSC can permit removal of the 8 remaining wells.

## **ECONOMIC OUTLOOK AND MAJOR INITIATIVES, CONTINUED**

The multi-year project to replace and modernize Wharves 1 & 2 and the adjacent terminal area which began in FY08 has been completed. In FY13, the 60-plus year old wooden wharves and adjacent warehouse were demolished and aging infrastructure was removed. Construction of the new wharves began with the driving of 115 concrete pilings to support the pre-stressed concrete decking. The new wharves were engineered to meet modern seismic standards and last for a minimum of 50 years. The project also included a new 950 linear foot seawall to protect the upland area from flooding due to storm surges and sea-level rise. It was designed to allow for modular height increases should future sea-level rise exceed current projections. Upland area improvements include a new energy efficient building for use by stevedores and longshoremen, as well as new electric utilities, lighting, water lines, drainage system, road and parking lot.

In conjunction with the Wharves 1 & 2 project, waterfront public access improvements will be made between the Port's Marina and Public Fishing Pier. A new 10 foot wide promenade and new waterfront viewing areas will improve both general and handicap accessibility, and combined with new landscaping will enhance the attractiveness of the area. Most of the work has been completed but the construction/improvement to the Public Fishing Pier is expected to begin in FY2017 after final design, engineering and permitting are completed.

During Fiscal Year 2008 the Port entered into a channel deepening feasibility study cost sharing agreement with the U.S. Army Corps of Engineers. The study will assess the economic and environmental impacts of deepening and improving the existing channel from its current authorized depth of -30 feet MLLW to -35 feet MLLW. A deeper channel will allow vessels to increase cargo volume, thereby increasing efficiency, productivity and job creation. The estimated \$4.6 million study cost will be shared equally by the Port and the Corps. As of June 30, 2015, the Port had contributed \$2,128,686.

### **CONTACTING THE PORT'S FINANCIAL MANAGEMENT**

The Basic Component Unit Financial Statements combined with this report, Management's Discussion and Analysis, are intended to provide citizens, investors and creditors insight into the Port's operation and finances. Questions regarding this report should be directed to:

Port of Redwood City

Manager of Finance & Administration

675 Seaport Boulevard, Redwood City, California 94063

Telephone: (650)306-4150 Facsimile: (650)369-7636 Email: [portofrc@redwoodcityport.com](mailto:portofrc@redwoodcityport.com)

**Port of Redwood City  
Comparative Statements of Net Position  
For the years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments (Note 2)	\$ 14,763,895	\$ 16,796,818
Restricted cash and investments (Note 2)	<u>1,053,291</u>	<u>1,715,496</u>
Total cash and investments and restricted cash and investments	<u>15,817,186</u>	<u>18,512,314</u>
Receivables:		
Accounts, net	715,105	756,516
Prepaid items	<u>307,213</u>	<u>332,894</u>
Total current assets	<u>16,839,504</u>	<u>19,601,724</u>
Noncurrent assets:		
Silicon Valley Clean Water capacity rights (Note 4)	400,000	400,000
Prepaid bond insurance	32,420	-
Capital assets (Note 3):		
Non-depreciable assets	5,690,352	21,945,798
Depreciable assets, net	<u>28,894,696</u>	<u>11,279,250</u>
Total capital assets, net	<u>34,585,048</u>	<u>33,225,048</u>
Total noncurrent assets	<u>35,017,468</u>	<u>33,625,048</u>
<b>Total assets</b>	<u>51,856,972</u>	<u>53,226,772</u>
Deferred outflow of resources		
Deferred outflow of resources - loss on bond refunding	267,901	-
Deferred outflow of resources - pension contributions	<u>158,716</u>	<u>-</u>
Total deferred outflow of resources	<u>426,617</u>	<u>-</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities (Note 6)	246,287	1,572,972
Accrued payroll and benefits payable	107,998	94,731
Unearned revenue	175,205	175,117
Refundable deposits	162,947	160,802
Interest payable	52,602	66,304
Subvention payable (Note 7)	200,813	159,468
Long-term debt - due within one year (Note 5)	<u>736,029</u>	<u>710,341</u>
Total current liabilities	<u>1,681,881</u>	<u>2,939,735</u>
Long-term liabilities:		
Net OPEB liability (Note 8)	202,238	172,132
Net pension liability	1,640,170	-
Long-term debt - due in more than one year (Note 5)	<u>15,189,995</u>	<u>16,565,443</u>
Total noncurrent liabilities	<u>17,032,403</u>	<u>16,737,575</u>
<b>Total liabilities</b>	<u>18,714,284</u>	<u>19,677,310</u>
Deferred inflow of resources		
Deferred inflow of resources - pension related	<u>323,908</u>	<u>-</u>
Total Deferred inflow of resources	<u>323,908</u>	<u>-</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	26,334,290	23,475,092
Restricted for Debt service	800,914	1,475,738
Unrestricted	<u>6,110,193</u>	<u>8,598,632</u>
<b>Total net position</b>	<u>\$ 33,245,397</u>	<u>\$ 33,549,462</u>

See accompanying Notes to Basic Financial Statements.

**Port of Redwood City**  
**Comparative Statements of Activities and Changes in Net Position**  
**For the years ended June 30, 2015 and 2014**

	2015	2014
<b>OPERATING REVENUES:</b>		
Marine terminal:		
Rentals-maritime	\$ 1,812,859	\$ 1,794,285
Wharfage	1,564,591	1,647,954
Dockage	587,237	617,337
Facilities usage	468,365	530,139
Line handling	487,854	529,330
Services and miscellaneous	11,390	5,022
Total marine terminal	4,932,296	5,124,067
Rentals - commercial	1,163,450	1,067,693
Recreational boating	515,152	535,412
Other operating revenue	111,057	97,302
<b>Total operating revenues</b>	<b>6,721,955</b>	<b>6,824,474</b>
<b>OPERATING EXPENSES:</b>		
Marine terminal	1,331,625	1,300,254
Recreational boating	523,730	515,568
Commercial	193,692	239,585
Infrastructure and general maintenance	756,470	740,188
Administration and general expenses	1,236,631	1,075,818
<b>Total operating expenses</b>	<b>4,042,148</b>	<b>3,871,413</b>
<b>OPERATING INCOME</b>	<b>2,679,807</b>	<b>2,953,061</b>
<b>NONOPERATING REVENUE (EXPENSES):</b>		
Interest income	47,561	46,316
Interest expense	(791,283)	(847,127)
Grant income	145,116	30,382
Other income (expense), net	(140,005)	6,353
<b>Total nonoperating revenue</b>	<b>(738,611)</b>	<b>(764,076)</b>
<b>Net income before subvention to the City of Redwood City</b>	<b>1,941,196</b>	<b>2,188,985</b>
Subvention to City of Redwood City (Note 7)	(403,317)	(409,468)
<b>NET POSITION:</b>		
Beginning of year, as restated	31,707,518	31,769,945
End of year	<u>\$ 33,245,397</u>	<u>\$ 33,549,462</u>

See accompanying Notes to Basic Financial Statements.

**Port of Redwood City**  
**Comparative Statements of Cash Flows**  
**For the years ended June 30, 2015 and 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers and other funds	\$ 6,763,366	\$ 6,862,302
Cash payments to suppliers for goods and services	(3,093,438)	(2,412,789)
Cash payments to employees for services	(1,229,549)	(1,084,093)
<b>Net cash provided by operating activities</b>	<b>2,440,379</b>	<b>3,365,420</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Cash payments of subvention to the City of Redwood City	(361,972)	(350,760)
Other nonoperating revenues	3,549	452,327
<b>Net cash used by noncapital financing activities</b>	<b>(358,423)</b>	<b>101,567</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from bond issuance	6,917,625	-
Cost of issuance - insurance	(32,420)	-
Principal payments on debt	(8,535,285)	(714,982)
Interest paid on debt	(804,985)	(823,485)
Acquisition and construction of capital assets	(2,369,580)	(6,497,756)
<b>Net cash used by capital and related financing activities</b>	<b>(4,824,645)</b>	<b>(8,036,223)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received on investments	47,561	46,316
<b>Net cash provided by investing activities</b>	<b>47,561</b>	<b>46,316</b>
<b>Net change in cash and cash equivalents</b>	<b>(2,695,128)</b>	<b>(4,522,920)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	18,512,314	23,035,234
End of year	<u>\$ 15,817,186</u>	<u>\$ 18,512,314</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 2,679,807	\$ 2,953,061
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,008,924	1,085,224
Bad debt expense	1,926	-
Pension expense GASB 68	-	-
(Increase) decrease in assets :		
Accounts receivable	41,411	128,245
Prepaid expenses	25,681	(90,417)
(Increase) decrease in deferred outflow of resources:		
Deferred outflow of resources - employer contributions	(8,156)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,326,685)	(610,517)
Accrued payroll and benefits	43,373	(113,417)
Unearned revenue	88	(23,296)
Refundable deposits	2,145	36,537
Net pension liability	(352,043)	-
Increase (decrease) in deferred inflow of resources:		
Deferred inflow of resources - pension related amounts	323,908	-
<b>Net cash provided by operating activities</b>	<u><b>\$ 2,440,379</b></u>	<u><b>\$ 3,365,420</b></u>

See accompanying Notes to Basic Financial Statements.

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**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Port of Redwood City (Port) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Port's accounting policies are described below.

***A. Reporting Entity***

The Port was established under the City of Redwood City's (City) Charter as a department of the City and is managed by the Board of Port Commissioners, whose five members are appointed by the City Council. The Port's financial statements are included in the basic financial statements of the City.

The Port is one of California's most diversified small ports. In addition to handling bulk and recycled materials, other uses include warehouse and office leasing, recreational boating facilities and a 183-slip marina.

***B. Basis of Accounting and Measurement Focus***

The Port is an enterprise fund which is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. The basic financial statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position and a Statement of Cash Flows.

These financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liability is incurred. The accompanying Statement of Activities and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. All of the Port's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The net position total reflected on both the Statement of Activities and Changes in Net Position and the Statement of Net Position represents equity.

***C. Cash, Cash Equivalents and Investments***

For purposes of the statement of cash flows, the Port considered all highly liquid investments with a maturity of one year or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase may be stated at amortized cost; all other investments should be stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. The Port elected to state all investments at fair value.

The Port participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk. In addition, these Structured Notes and Asset-Backed Securities are subject to change in interest rate risk.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *D. Capital Assets*

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Port policy has set the capitalization threshold for reporting capital assets at \$500. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and structures	30-50 years
Transportation equipment	3-10 years
Machinery and equipment	10-40 years
Furniture and fixtures	10-25 years
Computer equipment and software	3-5 years

### *E. Use of Estimates*

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

### *F. Net Position*

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation, reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount includes all net positions that do not meet the definition of “net investment in capital assets” or “restricted net position.”

### *G. Compensated Absences*

Compensated absences including accumulated unpaid vacation, sick pay and other employee benefits are accounted for as expenses in the year earned.

Vacation leave is earned by employees at the rate of ten days per year up to five years of service, fifteen days up to fourteen years of service, and twenty days thereafter. The maximum accrual permitted for any employee is two years earned vacation leave.

Sick leave is earned at a rate of eight hours per month. Unused sick leave may be accumulated up to a maximum of 120 working days (960) hours. Annually, employees may convert up to 96 hours of sick leave into compensation at 25% of their rate of pay. Employees leaving the service of the Port receive compensation in the amount of 25% of all unused accumulated sick leave

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *H. New Pronouncements*

In 2015, the Port adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* – The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments and accountability and inter-period equity, and creating additional transparency.

The statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures* as they relate to pensions that are provided through pension plans administered as trusts of equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The Port restated its beginning net position as part of implementation of this accounting standard.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* – This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. There was no impact on beginning net position as part of the implementation of this accounting standard.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* – The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Port restated its beginning net position as part of implementation of this accounting standard.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *I. Budget and Budgetary Accounting*

Budgets are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Prior to June 30 the proposed budget is submitted to the Port Commission for approval and the budget ordinance is introduced. Public hearings are conducted to obtain public comments. At a subsequent regularly scheduled commission meeting, the budget is legally enacted through passage of an ordinance, normally before July 1<sup>st</sup>. After adoption, the budget is submitted to the City Council, City Clerk, City Manager and City Finance Director of the City of Redwood City. The Commission is authorized to transfer budgeted amounts between line items within any department and can revise amounts which will alter total expenditures by the Port.

### *J. Pensions*

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## 2. CASH AND INVESTMENTS

### *A. Cash Deposits*

As of June 30, 2015, the carrying amount of the Port's cash deposits was \$1,374,901; bank balances before reconciling items were \$1,525,688, of which \$250,000 was fully insured and \$1,275,688 was collateralized with securities held by the pledging financial institutions in the Port's name as discussed below. The Port has waived collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The California Government Code requires California banks and savings and loan associations to secure the Port's deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for deposits is considered to be held in the Port's name. The market value of pledged securities must equal at least 110% of the Port's deposits. California law also allows financial institutions to secure Port deposits by pledging first trust deed mortgage notes having a value of 150% of the Port's deposits.

As of June 30, 2015 and 2014, the Port had \$1,053,291 and \$1,715,496, respectively, in total restricted cash and investments. The amount held by fiscal agents pledged for the payment of certain bonds as of June 30, 2015 and 2014 was \$878,086 and \$1,540,379, respectively; the amount held in escrow and by fiscal agents pledged for future asset acquisitions was \$175,205 and \$175,117, respectively. The California Government Code requires these funds to be invested in accordance with any applicable Port ordinance, resolution or bond indenture, unless there are specific State statutes governing their investment. These funds have been invested only as permitted by the Investment Policy.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**2. CASH AND INVESTMENTS, Continued**

***B. Investments***

The Port follows the City's investment policy. Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Maximum Investment In Any One Issuer</u>
U.S. Government Treasuries/Agency Securities	3 years	n/a	n/a
Corporate Bonds or Notes	3 years	30%	\$5 million
Certificates of Deposit (bank issued)	1 year	7.50%	\$3 million
California Local Agency Investment Fund (LAIF)	n/a	n/a	n/a
County of San Mateo Investment Pool	n/a	n/a	\$40 million
Money Market Funds	1 year	10%	n/a
Bankers Acceptances	180 days	n/a	\$3 million
Commercial Paper	15 days	n/a	\$1 million
Passbook Savings Accounts	n/a	n/a	n/a

***C. Risk Disclosures***

GASB Statement No. 40 requires that risks related to deposits and investments be disclosed.

Credit Risk – the risk of loss of value of an investment due to a downgrade of its rating or the failure or impairment of its issuer. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.

<u>Investment Type</u>	<u>Credit Rating</u>	<u>% of Investments</u>
California Local Agency Investment Fund	Not Rated	100%

Custodial Credit Risk – the risk of loss of an investment due to failure, impairment or malfeasance of the third party in whose name the investment is held and/or who has physical possession of the investment instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities (excluding certificates of deposit) be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the Port's investments were subject to custodial credit risk.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**2. CASH AND INVESTMENTS, Continued**

***D. Summary of Cash and Investments***

Deposits and investments held by the Port at June 30, 2015 and 2014 are summarized below:

Cash and Investments:	Fair Value	
	2015	2014
Demand Deposits:		
Deposits	\$ 1,374,901	\$ 1,443,964
Petty cash	1,000	1,000
Investments:		
Local Agency Investment Fund	13,387,994	15,351,854
Total unrestricted cash and investments	14,763,895	16,796,818
Restricted Cash and Investments:		
Held in escrow	175,205	175,117
Held by fiscal agent	878,086	1,540,379
Total restricted cash and investments	1,053,291	1,715,496
<b>Total unrestricted and restricted cash and investments</b>	<b>\$ 15,817,186</b>	<b>\$ 18,512,314</b>

***E. External Investment Pool***

The Port invests in LAIF, a State of California external investment pool. LAIF determines the fair value of its investment portfolio based on market quotations for those securities where market quotations are readily available, and based on amortized cost or best estimate for those securities where market value is not readily available.

The Port valued its investments in LAIF as of June 30, 2015, by multiplying its account balance with LAIF times a fair value factor computed by LAIF. As of June 30, 2015, the Port had \$13,382,962 in LAIF with fair value factor of 1.000375979. As of June 30, 2014, the Port had \$15,347,269 in LAIF with fair value factor of 1.00029875. The fair value factor was determined by dividing all LAIF participants' total aggregate amortized cost by total aggregate fair value. Accordingly, as of June 30, 2015 and 2014, the Port's investments in LAIF stated at fair value equaled \$13,387,994 and \$15,351,854 respectively.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method. The unrealized gain due to fair value adjustments was \$5,032 and \$4,585, for the years ended June 30, 2015 and 2014, respectively.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

**2. CASH AND INVESTMENTS, Continued**

The Port's investments with LAIF at June 30, 2015, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

- Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and/or that have embedded forwards or options.
- Asset-backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2015 and 2014, the Port had \$13,387,994 and \$15,351,854 respectively (stated at fair value) invested in LAIF, which had invested 2.08% and 1.86% of the pool investment fund in Structured Notes and Asset-Backed Securities.

**3. CAPITAL ASSETS**

The following is a summary of the Port's capital assets as of June 30, 2015 and 2014:

	2014			2015			Balance June 30, 2015
	Balance June 30, 2013	Additions & Transfers	Deletions	Balance June 30, 2014	Additions & Transfers	Deletions	
<b>Non-depreciable assets:</b>							
Land	\$ 2,520,064	\$ -	\$ -	\$ 2,520,064	\$ -	\$ -	\$ 2,520,064
Construction in progress	12,926,784	6,498,950	-	19,425,734	3,079,410	(19,334,856)	3,170,288
Total non-depreciable assets	15,446,848	6,498,950	-	21,945,798	3,079,410	(19,334,856)	5,690,352
<b>Depreciable assets:</b>							
Land improvements	54,002	-	-	54,002	-	-	54,002
Infrastructure	4,045,440	-	-	4,045,440	728,515	-	4,773,955
Recreational boating facilities	6,180,972	-	-	6,180,972	616,206	-	6,797,178
Terminal and facilities	15,002,673	-	-	15,002,673	17,258,285	-	32,260,958
Furniture, fixtures and equipment	334,636	-	-	334,636	21,364	-	356,000
Channel and maritime harbor	1,870,227	-	-	1,870,227	-	-	1,870,227
Total depreciable assets	27,487,950	-	-	27,487,950	18,624,370	-	46,112,320
<b>Accumulated Depreciation:</b>							
Land improvements	(43,942)	(799)	-	(44,741)	(799)	-	(45,540)
Infrastructure	(2,815,666)	(112,389)	-	(2,928,055)	(120,903)	-	(3,048,958)
Recreational boating facilities	(3,305,881)	(161,404)	-	(3,467,285)	(159,855)	-	(3,627,140)
Terminal and facilities	(7,338,975)	(507,352)	-	(7,846,327)	(709,740)	-	(8,556,067)
Furniture, fixtures and equipment	(320,007)	(9,583)	-	(329,590)	(2,174)	-	(331,764)
Channel and maritime harbor	(1,299,005)	(293,697)	-	(1,592,702)	(15,453)	-	(1,608,155)
Total accumulated depreciation	(15,123,476)	(1,085,224)	-	(16,208,700)	(1,008,924)	-	(17,217,624)
Total depreciable assets, net	12,364,474	(1,085,224)	-	11,279,250	17,615,446	-	28,894,696
Capital assets, net	\$ 27,811,322	\$ 5,413,726	\$ -	\$ 33,225,048	\$ 20,694,856	\$ (19,334,856)	\$ 34,585,048

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

**3. CAPITAL ASSETS, Continued**

Depreciation expense for the fiscal years ended June 30, 2015 and 2014 was as follows:

	June 30	
	2015	2014
Marine terminal	\$ 502,781	\$564,995
Infrastructure and general maintenance	301,863	303,402
Recreational boating	159,855	161,404
Commercial	40,004	43,598
Administration	4,421	11,825
Total	<u>\$ 1,008,924</u>	<u>\$ 1,085,224</u>

**4. SILICON VALLEY CLEAN WATER (SVCW) CAPACITY RIGHTS**

The Silicon Valley Clean Water (SVCW) was established to build and operate a sewage treatment facility. SVCW is controlled by a four member board, which appoints management and employees of SVCW and is responsible for SVCW's budget, operations and finances.

The Port's acquisition of capacity rights allows the Port and it's tenants to discharge 400,000 gallons per day of wastewater to SVCW's treatment facility. The Port is carrying the capacity rights at the original acquisition cost of \$1.00 per gallon for a total amount of \$400,000.

Financial statements may be obtained from SVCW at 1400 Radio Road, Redwood City, California 94065.

**5. LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2015 and 2014 are as follows:

	Balance			Balance			Balance June 30, 2015	Due Within One Year	Due in More Than One Year
	June 30, 2013	Additions	Retirements	June 30, 2014	Additions	Retirements			
1999 Revenue Bonds	\$ 8,060,000	\$ -	\$ (305,000)	\$ 7,755,000	\$ -	\$ (7,755,000)	\$ -	\$ -	\$ -
Unamortized Bond Discount	(278,438)	-	10,538	(267,900)	-	267,902	-	-	-
2012 Revenue Bonds	9,705,380	-	(341,186)	9,364,194	-	(355,795)	9,008,399	371,029	8,637,370
2015 Revenue Bonds	-	-	-	-	6,940,000	-	6,940,000	365,000	6,575,000
Unamortized Bond Discount	-	-	-	-	(22,375)	-	(22,375)	-	(22,375)
California Department of Boating and Waterways Loan	-	-	-	-	-	-	-	-	-
	457,548	-	(33,058)	424,490	-	(424,490)	-	-	-
Total long-term debt	<u>\$ 17,944,490</u>	<u>\$ -</u>	<u>\$ (668,708)</u>	<u>\$ 17,275,784</u>	<u>\$ 6,917,625</u>	<u>\$ (8,267,383)</u>	<u>\$ 15,926,024</u>	<u>\$ 736,029</u>	<u>\$ 15,189,995</u>

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**5. LONG-TERM DEBT, Continued**

***Port of Redwood City Revenue Bonds Series 1999***

On April 1, 1999, the Port issued Port of Redwood City Revenue Bonds Series 1999 to finance clean-up costs of hazardous waste remaining at the Port’s Liquid Bulk Terminal. The original principal amount of the bonds was \$10,945,000, less an original issue discount of \$378,102. The bonds were refunded by the Refunding Revenue Bonds Series 2015 as discussed below.

***Port of Redwood City Revenue Bonds Series 2012***

On June 1, 2012, the Port issued Port of Redwood City Revenue Bonds Series 2012 to finance the redevelopment of Wharves 1 & 2. The original principal amount of the bonds was \$10,000,000; there was no original issue discount. At June 30, 2015, the cost of issuance paid was \$102,000. The bonds bear an interest rate of 4.20% and are fully amortized. Principal and interest are payable on the first of each month throughout the 20 year term. The bonds are secured by and payable from the revenues generated by the Port’s operations.

At June 30, 2015, future debt service requirements for the 2012 revenue bonds were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2016	\$ 371,029	\$ 371,265	\$ 742,294
2017	386,916	355,378	742,294
2018	403,483	338,811	742,294
2019-2024	2,291,838	1,419,630	3,711,468
2025-2029	2,826,352	885,116	3,711,468
2030-2033	2,728,781	240,394	2,969,175
<b>Total</b>	<b>\$ 9,008,399</b>	<b>\$ 3,610,594</b>	<b>\$ 12,618,993</b>

***Port of Redwood City Refunding Revenue Bonds Series 2015***

On June 1, 2015, the Port issued Port of Redwood City Refunding Revenue Bonds Series 2015 to refund the Revenue Bonds Series 1999. The original principal amount of the bonds was \$6,940,000; there was an original issue discount of \$22,375. At June 30, 2015, the cost of issuance paid was \$133,992. The bonds bear an interest rate between 2.00% to 4.00% and are fully amortized. Principal and interest are payable on June 1 and December 1 of each year throughout the 15 year term. The bonds are secured by and payable from the revenues generated by the Port’s operations.

**Port of Redwood City  
Notes to Basic Financial Statements  
For the years ended June 30, 2015 and 2014**

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**5. LONG-TERM DEBT, Continued**

At June 30, 2015, future debt service requirements for the 2015 revenue bonds were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2016	\$ 365,000	\$ 241,382	\$ 606,382
2017	385,000	222,588	607,588
2018	395,000	211,038	606,038
2019-2024	2,635,000	1,004,925	3,639,925
2025-2030	3,160,000	440,018	3,600,018
<b>Total</b>	<b>\$ 6,940,000</b>	<b>\$ 2,119,951</b>	<b>\$ 9,059,951</b>

***Department of Boating and Waterways Note Payable***

The Port entered into a small craft harbor construction loan agreement with the California Department of Boating and Waterways in the total principal amount of \$881,005. The debt was payable from the Port's operating revenues. The debt was paid-off in the current fiscal year.

***Debt Covenants and Restrictions***

For the fiscal year ended June 30, 2015, the Port complied with all general and specific covenants of the master bond indenture and the first and supplemental bond indentures, including debt proceeds usage, debt repayment, and maintenance of adequate reserves.

**6. OTHER LIABILITIES**

At June 30, 2015, the accounts payable and accrued liabilities balance of \$246,287 includes an accrual of \$98,067 for the remaining estimated cost of post-closure analytical testing of groundwater, bio-augmentation remediation, and related regulatory oversight at the former Liquid Bulk Terminal site. The results of each of six consecutive semi-annual testing cycles must meet the established standards; if any fails to meet the established standards the six consecutive testing cycles must begin again. As of June 30, 2015, five testing cycles remained to be performed. See Management's Discussion and Analysis for further information.

**7. SUBVENTION PAYMENTS TO THE CITY OF REDWOOD CITY**

In accordance with Section 48d. Of the Charter of the City, the Board of the Port Commissioners is required to annually pay to the City profits from the operation of the Port and any surplus funds which in its judgment may not be needed for Port purposes. Subventions to the City for fiscal years 2015 and 2014 were \$403,317 and \$409,468, respectively.

**8. PENSION PLANS**

***A. California Public Employees Retirement Plan***

***Plan Description***

All qualified permanent and probationary employees are eligible to participate in the Port’s Miscellaneous Plan, agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City of Redwood City and Port of Redwood City ordinances. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

***Benefits Provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan is applied as specified by the Public Employees’ Retirement Law.

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

	<b>Miscellaneous</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	62 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	22.58%	22.58%

Port of Redwood City  
Notes to Basic Financial Statements  
For the years ended June 30, 2015 and 2014

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**8. PENSION PLANS, Continued**

**Employees Covered** – At June 30, 2015, the following employees were covered by the benefit terms for the Plan:

	<u>Miscellaneous</u>
Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>9</u>
Total	<u><u>11</u></u>

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Port is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**B. Net Pension Liability**

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

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**8. PENSION PLANS, Continued**

**Actuarial Assumptions** – The total pension liability in the June 30, 2013 actuarial valuations was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality	Derived using CalPERS' Membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75%, thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

**Port of Redwood City  
Notes to Basic Financial Statements  
For the years ended June 30, 2015 and 2014**

**8. PENSION PLANS, Continued**

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Port of Redwood City  
Notes to Basic Financial Statements  
For the years ended June 30, 2015 and 2014

8. PENSION PLANS, Continued

C. *Changes in the Net Pension Liability*

The changes in the Net Pension Liability for the Plan follows:

*Miscellaneous Plan:*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2014</b>	\$ 5,956,227	\$ 3,964,014	\$ 1,992,213
<b>Changes in the year:</b>			
Service cost	115,620	-	115,620
Interest on the total pension liability	440,975	-	440,975
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	150,269	(150,269)
Contribution - employee	-	60,403	(60,403)
Net investment income	-	697,966	(697,966)
Benefit payments , including refunds of employee contributions	(268,758)	(268,758)	-
<b>Net changes during 2014-15</b>	<b>287,837</b>	<b>639,880</b>	<b>(352,043)</b>
<b>Balance at June 30, 2015</b>	<b>\$ 6,244,064</b>	<b>\$ 4,603,894</b>	<b>\$ 1,640,170</b>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the net pension liability of the Port for the Plan, calculated using the discount rate for the Plan, as well as what the Port’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.50%
Net Pension Liability	\$ 2,452,912
Current Discount Rate	7.50%
Net Pension Liability	\$ 1,640,170
1% Increase	8.50%
Net Pension Liability	\$ 964,752

Port of Redwood City  
Notes to Basic Financial Statements  
For the years ended June 30, 2015 and 2014

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**8. PENSION PLANS, Continued**

*Pension Plan Fiduciary Net Position* – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

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

For the year ended June 30, 2015, the Port recognized pension expense of \$122,135. At June 30, 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date:	\$ 158,716	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Net differences between projected and actual earnings on plan investments	-	(323,908)
Total	<u>\$ 158,716</u>	<u>\$ (323,908)</u>

\$158,716 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year ending June 30	
2016	\$ 80,977
2017	80,977
2018	80,977
2019	80,977
Thereafter	

***E. Payable to the Pension Plan***

At June 30, 2015, the Port reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

## 8. PENSION PLANS, Continued

### *F. Other Post-Employment Benefits (OPEB)*

#### *Plan Description*

The other post-employment benefits (other than pension) offered by the Port are limited to reimbursement of medical premiums only. Eligibility extends to those employees hired before January 1, 2011, who, prior to retirement, have (a) worked ten or more consecutive years at the Port on a full time basis, and (b) are enrolled in the Port's medical plan, and (c) are age 55 or older, and (d) have not been voluntarily or involuntarily terminated from employment at the Port. Spouses and/or dependents are ineligible.

The reimbursement of medical premiums is limited to the lesser of (a) the medical insurance premium paid by the eligible retiree, or (b) the Port's cost to provide medical coverage for an active employee of the same age as the retiree or (c) the insurance premium for a Medicare supplement plan at the retiree's earliest Medicare eligibility age, whether or not the retiree enrolls in Medicare.

#### *Funding Policy, Status and Progress*

The accounting rules governing other post-employment benefits (OPEB) do not require mandatory funding of the actuarial accrued liability or annual required contribution. During the fiscal year ended June 30, 2011, the Port adopted a comprehensive funding policy for post-employment benefits other than pension. The policy addresses the selection of a Section 115 Trust, prefunding strategy, valuation frequency, valuation methodology, disbursements and administrative matters. The Section 115 Trust selected was the CalPERS California Employer's Retiree Benefit Trust Program ("CERBT").

#### *Annual OPEB Cost and Net OPEB Obligation*

For the fiscal year ended June 30, 2015, the Port's annual OPEB cost was \$35,757; of this amount \$5,631 was expensed and paid for the current retiree, and the remaining \$30,106 net OPEB obligation was expensed and recorded as a liability. Combined with the \$172,132 net OPEB obligation as of June 30, 2014, the total net OPEB obligation as of June 30, 2015 was \$202,238.

The annual required contribution was determined as part of the July 1, 2014, actuarial valuation using the Entry Age Actuarial Cost Method and assumptions consistent with CalPERS OPEB Assumptions Model. The actuarial assumptions included (a) salary increases of 3.25% per year (b) a discount rate of 7.61%, (c) 100% of eligible employees assumed to elect coverage upon retirement and to remain covered for life, (d) retirement, withdrawal and mortality rates based on CalPERS assumptions model for the classification "public agency miscellaneous 2.7% at 55, and (e) medical premium inflation rates ranging from 9% to 6% over time. The actuarial present value of future benefits was calculated for each individual using the economic assumptions and specific member data, then aggregated. The amortization component of the unfunded actuarial accrued liability was based on a 30 year amortization period.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**8. PENSION PLANS, continued**

**Annual OPEB Cost and Net OPEB Obligation**

Normal Cost	\$ 8,161
Amortization of unfunded actuarial accrued liability	<u>25,280</u>
Annual required contribution	33,441
Interest on beginning net OPEB obligation	13,099
Annual required contribution adjustment	<u>(10,803)</u>
Annual OPEB expense	35,737
Actual current year employer payment	<u>(5,631)</u>
Increase in OPEB obligation	30,106
Net OPEB obligation at June 30, 2014	172,132
Net OPEB obligation at June 30, 2015	<u><u>\$202,238</u></u>

**OPEB Unfunded Actuarial Accrued Liabilities**

Actuarial accrued liabilities	\$373,632
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liabilities (UAAL)	<u><u>\$373,632</u></u>
Funded Ratio	0%
Covered Payroll	\$655,667
UAAL as a % of Covered Payroll	56.98%

**9. RISK MANAGEMENT**

Workers' Compensation coverage is provided through the City's self-insurance program. The Port has no self-insured retention associated with this coverage.

All property and liability insurance coverage is provided through a broker. Deductible amounts range from \$250 to \$1,000,000.

In the last five years no claims were filed against the Port which exceeded its insurance coverage limits.

**10. COMMITMENTS AND CONTINGENCIES**

As of June 30, 2015 and 2014, the Port had committed approximately \$580,000 and \$1,519,000 respectively for capital improvement projects and professional services contracts.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**11. OPERATING LEASES**

The Port leases a multi-function copier and a postage machine with scale. The minimum future lease payments under the non-cancelable operating leases for the remaining term of the leases are as follows:

Fiscal Year ending June 30,	Multi-function Copier	Postage Machine/Scale
2016	\$ 6,104	\$ 1,700
2017	-	1,700
2018	-	1,700
2019	-	283
Total minimum future lease payments	<u>\$ 6,104</u>	<u>\$ 5,383</u>

**12. PLEDGES OF FUTURE REVENUES**

The Master Indenture for the Series 2015 Bonds and Series 2012 Bonds requires the Port to pledge its annual Net Revenues (defined as operating income plus depreciation, interest income and non-operating income) in an amount equal to at least 120% of the annual debt service requirement each fiscal year, through final maturities of the Bonds or early retirement of the Bonds, whichever first occurs. The Series 2015 Bonds mature June 1, 2030; the Series 2012 Bonds mature June 1, 2032. At June 30, 2015, the ratio of Net Revenues to the debt service payments due during Fiscal Year 2015 was 2.45 (245%).

**13. DEBT SERVICE COVERAGE RATIOS**

The Second Supplemental Indenture, applicable to the Series 2012 Bonds, specifies additional reporting requirements and action to be taken in the event the Debt Service Coverage Ratio (DSCR) falls below specific levels. At a DSCR of less than 1.40, the Port is required to provide quarterly reports to the Trustee and the bondholders. At a DSCR of less than 1.20, the Port is required to hire an approved consultant to examine the Port's rates and operations, and to implement reasonable recommendations made by the consultant. A DSCR of less than 1.00 for two consecutive years is an immediate Event of Default. At June 30, 2015, the DSCR was 2.45.

**14. MINIMUM OPERATING RESERVE**

The Series 2012 Bond Purchase Agreement requires that the Port maintain a Minimum Operating Reserve. The Minimum Operating Reserve is defined as unrestricted cash reserves in an amount at least 1.5 times the annual maintenance and operation costs as defined in the Master Indenture. The definition of annual maintenance and operation costs, as applied to the Port's financial statements, is equal to Operating Expenses net of depreciation. At June 30, 2015, unrestricted cash reserves were 4.9 times Operating Expenses net of depreciation.

The Continuing Disclosure requirements for the Series 2015 Bond prescribe the information to be included in the Annual Report to the Port's Series 2015 bondholders and repositories. Among those requirements is calculation of the Debt Service Coverage Ratio (Net Revenues divided by Maximum Annual Debt Service). At June 30, 2015, the Debt Service Coverage Ratio was 2.45 (245%).

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2015 and 2014**

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**15. PRIOR PERIOD ADJUSTMENTS**

The Port recorded prior period adjustments to record employer contributions paid for pension during fiscal year ended June 30, 2014 as a deferred outflow of resources and to record the Port's beginning balance of the net pension liability as June 30, 2014.

<u>Net Position, as Reported</u>	<u>Prior Period Net Position</u>	<u>Net Position, as Restated</u>
<u>\$ 33,549,462</u>	<u>\$ (1,841,944)</u>	<u>\$ 31,707,518</u>

The effect on prior year's Comparative Statements of Net Pension was an overstatement of Net Position of \$1,841,944.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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## 1. DEFINED BENEFIT PENSION PLANS

### A. Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period

#### Miscellaneous Plan

Measurement Period (1)	2013-14
<b>TOTAL PENSION LIABILITY</b>	
Service Cost	\$ 115,620
Interest	440,974
Changes of Benefit Terms	-
Difference Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	(268,758)
<b>Net Change in Total Pension Liability</b>	<b>287,836</b>
<b>Total Pension Liability - Beginning</b>	<b>5,956,227</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 6,244,063</b>
<b>PLAN FIDUCIARY NET POSITION</b>	
Contributions - Employer	\$ 150,269
Contributions - Employee	60,404
Net Investment Income (2)	697,965
Benefit Payments, Including Refunds of Employee Contributions	(268,758)
Other Changes in Fiduciary Net Position	-
<b>Net Change in Fiduciary Net Position</b>	<b>639,879</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>3,964,014</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 4,603,893</b>
<b>Plan Net Position Liability/(Asset) - Ending (a) - (b)</b>	<b>\$ 1,640,170</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>73.73%</b>
<b>Covered-Employee Payroll</b>	<b>\$ 636,746</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>257.59%</b>

(1) – Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) – Net of administrative expenses.

#### Notes to Schedules

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Changes of Assumptions: There were no changes in assumptions.

# 1. DEFINED BENEFIT PENSION PLANS, Continued

## B. Schedule of Plan Contributions

### Miscellaneous Plan

	<u>Fiscal Year 2014-15 (1)</u>
Actuarially determined contribution	\$ 150,269
Contribution in relation to the actuarially determined contributions	<u>(150,269)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 655,667
Contributions as a percentage of covered-employee payroll	22.92%

(1) - Historical information is required only for measurement periods for which GASB 68 is applicable

### Notes to Schedules

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

	<u>Miscellaneous Plan</u>
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Remaining amortization period	21 Years as of valuation date
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

## 2. OTHER POST EMPLOYMENT BENEFITS (OPEB)

A schedule of funding progress for the past three actuarial valuations is presented below.

Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Liability as Percentage of Covered Payroll
6/30/2010	\$ -	\$ 453,847	\$ 453,847	0%	\$ 689,620	65.8%
6/30/2011	-	303,153	303,153	0%	682,637	44.4%
6/30/2012	-	334,371	334,371	0%	631,539	52.9%
6/30/2013	-	362,074	362,074	0%	629,034	57.6%
6/30/2014	-	349,824	349,824	0%	636,746	54.9%
6/30/2015	-	373,632	373,632	0%	655,667	57.0%

\* Latest information available

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
Of the Port of Redwood City  
Redwood City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Port of Redwood City, California (Port), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise The Port's basic financial statements, and have issued our report thereon dated December 11, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

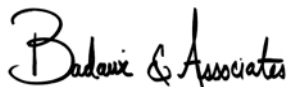
To the Board of Commissioners  
Of the Port of Redwood City  
Redwood City, California  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi & Associates  
Certified Public Accountants  
Oakland, California  
December 11, 2015