

# Port of Redwood City

Redwood City, California

*Basic Financial Statements  
and Independent Auditors' Report*

*For the years ended June 30, 2018 and 2017*

**Port of Redwood City**  
**Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**Table of Contents**

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	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Management's Discussion and Analysis</b> .....	3
<b>Basic Financial Statements:</b>	
Comparative Statements of Net Position .....	10
Comparative Statements of Activities and Changes in Net Position.....	11
Comparative Statements of Cash Flows.....	12
Notes to Basic Financial Statements.....	13
<b>Required Supplementary Information</b> .....	41
<b>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</b> .....	45



## 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, 2018 and 2017, 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  
Page 2

***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, 2018 and 2017, 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.

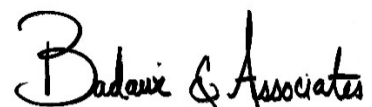
***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9, pension information, and other post-employment benefit plans information on pages 41-44, 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 7, 2018, 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 7, 2018



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The Port of Redwood City has issued its financial statements for the fiscal year ended June 30, 2018 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 2018 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 2018, 2017, and 2016.

**Table A**

	FY18	FY17	FY18 vs. FY17	FY16	FY17 vs. FY16
			Change		Change
<b>Assets</b>					
Current Assets	\$ 15,561,065	\$ 18,943,326	\$ (3,382,261)	\$ 17,014,964	\$ 1,928,362
Capital Assets, Net	40,308,642	34,582,185	5,726,457	35,376,850	(794,665)
All Other Assets	425,903	428,075	(2,172)	430,247	(2,172)
<b>Total Assets</b>	<b>56,295,610</b>	<b>53,953,586</b>	<b>2,342,024</b>	<b>52,822,061</b>	<b>1,131,525</b>
<b>Deferred Outflow of Resources</b>					
Loss on Bond Refunding	214,333	232,189	(17,856)	250,045	(17,856)
Pension Related	455,073	349,554	105,519	-	349,554
Pension Contributions	230,354	198,395	31,959	165,636	32,759
OPEB contributions	6,300	-	6,300	-	-
<b>Total Deferred Outflows</b>	<b>906,060</b>	<b>780,138</b>	<b>125,922</b>	<b>415,681</b>	<b>364,457</b>
<b>Liabilities</b>					
Current Liabilities	2,379,855	1,990,836	389,019	1,693,935	296,901
Non-current Liabilities	16,732,056	16,167,524	564,532	16,432,289	(264,765)
<b>Total Liabilities</b>	<b>19,111,911</b>	<b>18,158,360</b>	<b>953,551</b>	<b>18,126,224</b>	<b>32,136</b>
<b>Deferred Inflow of Resources</b>					
OPEB Related	57,339	-	57,339	-	-
Pension Related	-	36,989	(36,989)	120,882	(83,893)
<b>Total Deferred Inflows</b>	<b>57,339</b>	<b>36,989</b>	<b>20,350</b>	<b>120,882</b>	<b>(83,893)</b>
<b>Net Position</b>					
Net Investment in					
Capital Assets	32,676,004	26,331,731	6,344,273	26,368,451	(36,720)
Restricted for Bebt Service	833,822	826,308	7,514	818,953	7,355
Unrestricted	4,522,594	9,380,339	(4,857,745)	7,803,232	1,577,107
<b>Total Net Position</b>	<b>\$ 38,032,420</b>	<b>\$ 36,538,378</b>	<b>\$ 1,494,042</b>	<b>\$ 34,990,636</b>	<b>\$ 1,547,742</b>

The increase in Net Position between June 30, 2018 and June 30, 2017 is due to the profitable operation of the Port for the fiscal year July 1, 2017 to June 30, 2018.

The \$1,494,042 increase in FY18 Total Net Position is comprised of:

- \$ 2,439,134 - Net income for the year
- < 517,634> - Less subvention to the City of Redwood City.
- < 427,458> - Less Port's contribution paid for OPEB as of 6/30/2017.

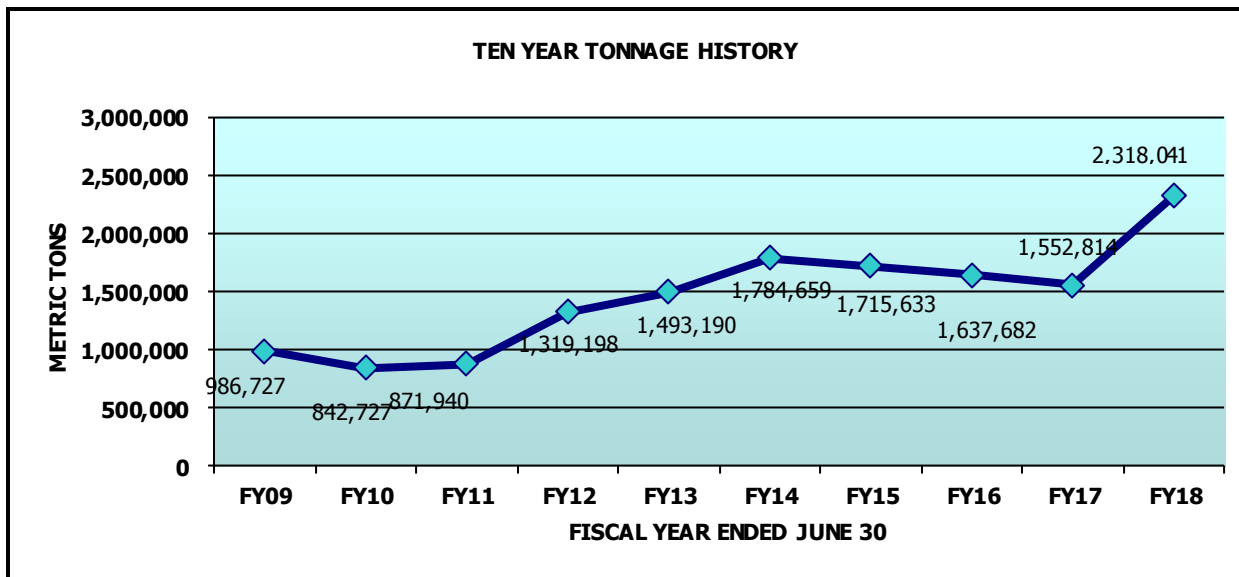
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\$ 1,494,042  
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## FINANCIAL ACTIVITIES & FISCAL YEAR 2018 HIGHLIGHTS, CONTINUED

### 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 2018 (FY18) the Port's tonnage was 2,318,041 metric tons, 49% up from 1,552,814 metric tons in FY17, setting a record for Port tonnage.

The recession of 2009 - 10 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 Years 2013 and 2014, with fairly stable in 2016 and 2017, 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 2018 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 2018, 2017 and 2016.

**Table B**

	<u>FY18</u>	<u>FY17</u>	<u>FY18 vs. FY17 Change</u>	<u>FY16</u>	<u>FY17 vs. FY16 Change</u>
<b>Revenue</b>					
Operating Revenue	\$ 8,627,231	\$ 7,127,814	\$ 1,499,417	\$ 6,779,863	\$ 347,951
Interest Income	190,440	107,911	82,529	61,861	46,050
Other Non-Operating Income	38,630	32,768	5,862	121,541	(88,773)
<b>Total Revenue</b>	<u>8,856,301</u>	<u>7,268,493</u>	<u>1,587,808</u>	<u>6,963,265</u>	<u>305,228</u>
<b>Expense</b>					
Operations	3,364,236	3,176,718	187,518	2,784,305	392,413
Administration	2,448,344	1,492,811	955,533	1,328,944	163,867
Operating Expense	5,812,580	4,669,529	1,143,051	4,113,249	556,280
Interest Expense	569,536	595,005	(25,469)	628,180	(33,175)
Other Non-Operating Expense	35,051	28,548	6,503	69,805	(41,257)
<b>Total Expense</b>	<u>6,417,167</u>	<u>5,293,082</u>	<u>1,124,085</u>	<u>4,811,234</u>	<u>481,848</u>
Excess (Deficiency) before Contributions, Special & Extraordinary Items & Transfers	2,439,134	1,975,411	463,723	2,152,031	(176,620)
Transfers (Subvention)	(517,634)	(427,669)	(89,965)	(406,792)	(20,877)
<b>Net Income</b>	<u>\$ 1,921,500</u>	<u>\$ 1,547,742</u>	<u>\$ 373,758</u>	<u>\$ 1,745,239</u>	<u>\$ (197,497)</u>

Port's operating revenue for Fiscal Year 2018 increased by 21.0% or almost \$1.5million compared to Fiscal Year 2017, and that was mainly because of increase in tariff rates and commercial rents.

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 2018 the Port will pay subvention of \$517,634 to the City.



## FINANCIAL ACTIVITIES & FISCAL YEAR 2018 HIGHLIGHTS, CONTINUED

### Capital Assets

At June 30, 2018 the Port had \$61,924,591 in capital assets and \$21,615,949 accumulated depreciation, resulting in net capital assets of \$40,308,642. A summary of the activity and balances in capital assets is presented in Table C below.

**Table C**

	June 30, 201	Additions & Transfers	Deletions & Transfers	June 30, 2018
Land and Land Improvements	\$ 2,574,066	\$ -	\$ -	\$ 2,574,066
Infrastructure	4,773,955	-	-	4,773,955
Recreational Boating Facilities	7,431,512	-	-	7,431,512
Terminal & Facilities	32,260,958	7,803,555	-	40,064,513
Furniture, Fixtures & Equipment	381,595	59,053	-	440,648
Channel and Maritime Harbor	3,685,138	-	-	3,685,138
Construction in Progress	3,524,122	7,284,458	(7,853,821)	2,954,759
Total Capital Assets	54,631,346	15,147,066	(7,853,821)	61,924,591
Accumulated Depreciation	(20,049,161)	(1,566,788)	-	(21,615,949)
<b>Capital Assets, Net</b>	<b>\$ 34,582,185</b>	<b>\$ 13,580,278</b>	<b>\$ (7,853,821)</b>	<b>\$ 40,308,642</b>

At June 30, 2018, of the \$2,954,759 balance in Construction in Progress \$2,322,289 pertains to the Channel Deepening Feasibility Study and the remaining \$632,470 to the other projects underway including Berth Dredging, Marina Improvements, Public Access/Fishing Pier renovation and enhance Inter-agency Operations Center (IOC).

### Debt Administration

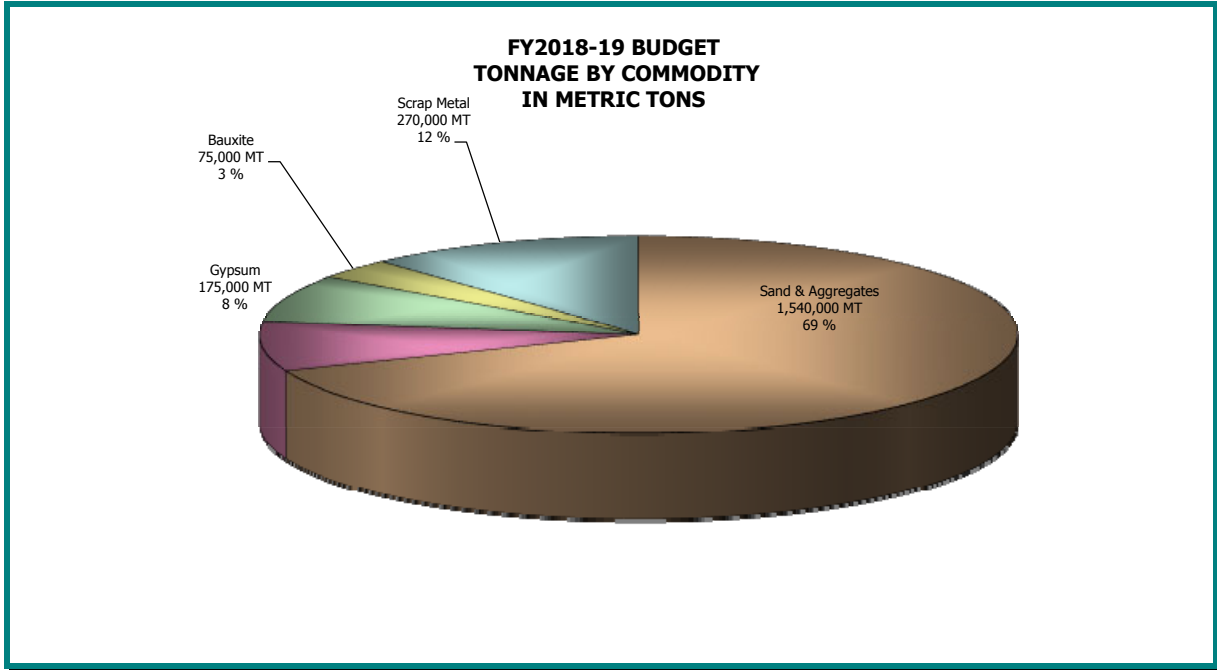
At June 30, 2018, the Port had the following debt obligations:

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, 2018 is \$7,846,971. 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 remaining principal balance at June 30, 2018 is \$5,795,000. 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 2019 (FY2018-19) budget for import and export tonnage was based on the expectations of its key customers with regard to their particular markets. At 2.2 million metric tons, the FY2018-19 tonnage budget is 23% higher than FY2017-18 budget, reflecting increase in demand for construction materials in the Port's region.



## OVERVIEW Fy2018 vs Fy2019

	<u>Fy18 Budget</u> (\$\$ million)	<u>Fy18 Actual</u> (\$\$ million)	<u>Fy19 Budget</u> (\$\$ million)
<b>Operating Revenue</b>	<b>\$ 7.943</b>	<b>\$ 8.627</b>	<b>\$ 8.602</b>
<b>Operating Expenses</b>	<b>- 3.672</b>	<b>- 3.364</b>	<b>- 5.687</b>
<b>Administrative Exp.</b>	<b>- 1.565</b>	<b>- 2.448</b>	<b>- 1.662</b>
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<b>Operating Income</b>	<b>2.706</b>	<b>2.815</b>	<b>1.253</b>
<b>Non-Operating Exp.</b>	<b>- 0.553</b>	<b>- 0.376</b>	<b>- 0.373</b>
<b>Subvention</b>	<b>- 0.476</b>	<b>- 0.517</b>	<b>- 0.516</b>
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<b>Net Income</b>	<b>\$ 1.677</b>	<b>\$ 1.922</b>	<b>\$ 0.364</b>

## ECONOMIC OUTLOOK AND MAJOR INITIATIVES, CONTINUED

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 six (6) consecutive tests reflect results within acceptable ranges.

In November 2017 sampling event was the 6<sup>th</sup> conservative semi-annual sampling event where all detected concentrations were below the Closure Performance Standards (CPS). In February 2018, DTSC approved termination of the current groundwater monitoring program and removal of all eight remaining groundwater monitoring wells. This site is now available for future lease opportunities and/or commercial development.

In late 2017 the Port collaborated with the City of Redwood City to allow the transfer of live-aboard boaters from the City managed Marina to the Port's Marina. To accommodate the transition of live-aboard tenants the Port entered into contracts for some major repairs to the marina. Mainly the C-Dock electrical wiring, repairs to the concrete docks, renovations to the restroom and laundry facilities to modernize the fixtures and bring the building into ADA-compliance. These repairs and improvements to the facilities will cost approximately \$500,000. The City, pursuant to the resolution, would contribute 50% of the costs of these improvements.

### **GOALS FOR Fy2018-19:**

- Foster further growth of the Port's maritime commerce and cargo shipments
- Engage in public-private partnerships to develop Port site for future lease opportunities
- Enhance the Interagency Emergency Operations Center
- Collaborate with City for the development of public Ferry Service
- Invest in the improvement of ship berths to allow bigger ships
- Promote the Port as a multi-modal hub
- Strategize communication opportunities and continue collaboration with the City
- Conduct a full scale emergency response and recovery exercise with the City/County
- Support the development of a Youth Maritime Center

### **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

Director 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, 2018 and 2017**

	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and investments (Note 2)	\$ 12,572,821	\$ 16,844,610
Restricted cash and investments (Note 2)	1,072,328	1,060,764
Total cash and investments and restricted cash and investments	<u>13,645,149</u>	<u>17,905,374</u>
Receivables:		
Accounts, net	1,622,710	792,107
Prepaid items	293,206	245,845
Total current assets	<u>15,561,065</u>	<u>18,943,326</u>
Noncurrent assets:		
Silicon Valley Clean Water capacity rights (Note 4)	400,000	400,000
Prepaid bond insurance	25,903	28,075
Capital assets (Note 3):		
Non-depreciable assets	5,474,823	6,044,186
Depreciable assets, net	34,833,819	28,537,999
Total capital assets, net	<u>40,308,642</u>	<u>34,582,185</u>
Total noncurrent assets	<u>40,734,545</u>	<u>35,010,260</u>
<b>Total assets</b>	<u>56,295,610</u>	<u>53,953,586</u>
Deferred outflow of resources		
Deferred outflow of resources - loss on bond refunding	214,333	232,189
Deferred outflows of resources - pension related	455,073	349,554
Deferred outflow of resources - pension contributions	230,354	198,395
Deferred outflow of resources - OPEB contributions	6,300	-
Total deferred outflow of resources	<u>906,060</u>	<u>780,138</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities (Note 6)	401,447	265,097
Accrued payroll and benefits payable	117,329	113,205
Unearned revenue	175,385	175,332
Refundable deposits	297,524	164,586
Interest payable	44,777	46,464
Subvention payable (Note 7)	517,634	427,669
Long-term debt - due within one year (Note 5)	825,759	798,483
Total current liabilities	<u>2,379,855</u>	<u>1,990,836</u>
Long-term liabilities:		
Net OPEB liability (Note 8)	656,195	262,219
Net pension liability	3,277,522	2,282,704
Long-term debt - due in more than one year (Note 5)	12,798,339	13,622,598
Total noncurrent liabilities	<u>16,732,056</u>	<u>16,167,521</u>
<b>Total liabilities</b>	<u>19,111,911</u>	<u>18,158,357</u>
Deferred inflow of resources		
Deferred inflow of resources - OPEB related	57,339	-
Deferred inflow of resources - pension related	-	36,989
Total Deferred inflow of resources	<u>57,339</u>	<u>36,989</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	32,676,004	26,331,731
Restricted for Debt service	833,822	826,308
Unrestricted	4,522,594	9,380,339
<b>Total net position</b>	<u>\$ 38,032,420</u>	<u>\$ 36,538,378</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, 2018 and 2017**

	2018	2017
<b>OPERATING REVENUES:</b>		
Marine terminal:		
Rentals-maritime	\$ 2,196,096	\$ 1,904,389
Wharfage	2,383,600	1,719,066
Dockage	669,531	502,952
Facilities usage	575,892	515,359
Line handling	651,096	489,639
Services and miscellaneous	22,051	9,958
Total marine terminal	6,498,266	5,141,363
Rentals - commercial	1,454,161	1,290,789
Recreational boating	569,791	568,223
Other operating revenue	105,013	127,439
<b>Total operating revenues</b>	<b>8,627,231</b>	<b>7,127,814</b>
<b>OPERATING EXPENSES:</b>		
Marine terminal	1,875,519	1,761,381
Recreational boating	560,847	567,131
Commercial	241,757	224,616
Infrastructure and general maintenance	686,113	623,590
Administration and general expenses	2,448,344	1,492,811
<b>Total operating expenses</b>	<b>5,812,580</b>	<b>4,669,529</b>
<b>OPERATING INCOME</b>	<b>2,814,651</b>	<b>2,458,285</b>
<b>NONOPERATING REVENUE (EXPENSES):</b>		
Interest income	190,440	107,911
Interest expense	(569,536)	(595,005)
Grant income	3,369	4,134
Other income (expense), net	210	86
<b>Total nonoperating expenses</b>	<b>(375,517)</b>	<b>(482,874)</b>
<b>Net income before subvention to the City of Redwood City</b>	<b>2,439,134</b>	<b>1,975,411</b>
Subvention to City of Redwood City (Note 7)	(517,634)	(427,669)
<b>NET POSITION:</b>		
Beginning of year, as restated	36,110,920	34,990,636
End of year	<b>\$ 38,032,420</b>	<b>36,538,378</b>

**Port of Redwood City**  
**Comparative Statements of Cash Flows**  
**For the years ended June 30, 2018 and 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers and other funds	\$ 7,796,628	\$ 7,060,892
Cash payments to suppliers for goods and services	(1,575,468)	(1,561,363)
Cash payments to employees for services	(1,606,312)	(1,410,167)
<b>Net cash provided by operating activities</b>	<b>4,614,848</b>	<b>4,089,362</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Cash payments of subvention to the City of Redwood City	(427,669)	(201,069)
Other nonoperating revenues	3,579	4,220
<b>Net cash used by noncapital financing activities</b>	<b>(424,090)</b>	<b>(196,849)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments on debt	(798,329)	(771,916)
Interest paid on debt	(549,849)	(575,793)
Acquisition and construction of capital assets	(7,293,245)	(768,286)
<b>Net cash used by capital and related financing activities</b>	<b>(8,641,423)</b>	<b>(2,115,995)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received on investments	190,440	107,911
<b>Net cash provided by investing activities</b>	<b>190,440</b>	<b>107,911</b>
<b>Net change in cash and cash equivalents</b>	<b>(4,260,225)</b>	<b>1,884,429</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	17,905,374	16,020,945
End of year	<u>\$ 13,645,149</u>	<u>\$ 17,905,374</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 2,814,651	\$ 2,458,285
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,566,788	1,562,951
(Increase) decrease in assets :		
Accounts receivable	(830,603)	(66,922)
Prepaid expenses	(47,361)	22,989
(Increase) decrease in deferred outflow of resources:		
Deferred outflow of resources - OPEB employer contributions	2,100	-
Deferred outflows of resources - pension	(105,519)	(349,554)
Deferred outflow of resources - pension employer contributions	(31,959)	(32,759)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	136,350	27,470
Accrued payroll and benefits	4,124	48,098
Unearned revenue	53	52
Refundable deposits	132,938	1,893
Net OPEB Liability	(41,882)	-
Net pension liability	994,818	500,752
Increase (decrease) in deferred inflow of resources:		
Deferred inflow of resources - OPEB related amounts	(36,989)	-
Deferred inflow of resources - pension related amounts	57,339	(83,893)
<b>Net cash provided by operating activities</b>	<b>\$ 4,614,848</b>	<b>\$ 4,089,362</b>

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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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 Board (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 190-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 has elected to state all investments at fair value.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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.

***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. 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."

***F. 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.



**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***G. 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.

***H. New Pronouncements***

In 2018, the Port adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The Port restated its beginning net position as part of implementation of this statement.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the Port for the current fiscal year.
- GASB Statement No. 85, *Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement did not apply to the Port for the current fiscal year.

***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 Assistant City Manager - Administrative Services 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.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**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) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by 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.

**K. Other Postemployment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Port's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

**L. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position (balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position (balance sheet) will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**2. CASH AND INVESTMENTS**

*A. Summary of Cash and Investments*

Deposits and investments held by the Port at June 30, 2018 and 2017 are summarized below:

<b>Cash and Investments:</b>	Fair Value	
	2018	2017
Demand Deposits:		
Deposits	\$ 1,413,885	\$ 3,339,048
Petty cash	1,000	1,000
Investments:		
Local Agency Investment Fund	11,157,936	13,504,562
Total unrestricted cash and investments	<u>12,572,821</u>	<u>16,844,610</u>
Restricted Cash and Investments:		
Held in escrow	175,385	175,332
Held by fiscal agent	896,943	885,432
Total restricted cash and investments	<u>1,072,328</u>	<u>1,060,764</u>
<b>Total unrestricted and restricted cash and investments</b>	<b><u>\$ 13,645,149</u></b>	<b><u>\$ 17,905,374</u></b>

*B. Cash Deposits*

As of June 30, 2018 and 2017, the carrying amount of the Port's cash deposits were \$1,413,885 and \$3,339,048 respectively; bank balances before reconciling items were \$1,170,864 and \$3,389,544 respectively, of which \$250,000 was fully insured and \$920,864 and \$3,139,544 respectively were collateralized with securities held by the pledging financial institutions in the Port's name as discussed below. The Port has waived collateral requirements for the portion of cash deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

*C. Cash Deposits*

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.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**2. CASH AND INVESTMENTS, Continued**

*C. Cash Deposits, Continued*

As of June 30, 2018 and 2017, the Port had \$1,072,328 and \$1,060,764 respectively in total restricted cash and investments. The amount held by fiscal agents pledged for the payment of certain bonds as of June 30, 2018 and 2017 was \$896,943 and \$885,432, respectively; the amount held in escrow and by fiscal agents pledged for future asset acquisitions was \$175,385 and \$175,332 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.

*D. 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>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	No limit	No limit
Federal Agency/Government Sponsored Enterprises	N/A	No limit	No limit
Local Agency Investment Fund	N/A	No limit	\$65 Million
San Mateo County Pool	N/A	No limit	\$50 Million
State and Local Agency Bonds	N/A	20%	5%
Money Market and Mutual Funds	N/A	20%	5%
Local Government Investment Pools	N/A	20%	No limit
U.S. Medium-Term Notes	5 years	30%	5%
Non-negotiable Certificates of Deposit	3 years	10%	2%
Negotiable Certificates of Deposit	N/A	30%	5%
Prime Commercial Paper	270 days	25%	10%
Bankers' Acceptances	180 days	10%	2%
Repurchase Agreements	90 days	10%	No limit
Asset-backed Securities	5 years	20%	5%
Supranational Securities	5 years	30%	5%

*E. 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.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**2. CASH AND INVESTMENTS, Continued**

*E. Risk Disclosures, Continued*

*Cash Deposits*

Investment Type	Credit Rating	% of Investments
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.

*F. 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, 2018, by multiplying its account balance with LAIF times a fair value factor computed by LAIF. As of June 30, 2018, the Port had \$11,178,875 in LAIF with fair value factor of 0.998126869. As of June 30, 2017, the Port had \$13,518,883 in LAIF with fair value factor of 0.998940671. 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, 2018 and 2017, the Port’s investments in LAIF stated at fair value equaled \$11,157,936 and \$13,504,562 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 losses due to fair value adjustments were (\$20,939) and (\$14,321), for the years ended June 30, 2018 and 2017, respectively.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**2. CASH AND INVESTMENTS, Continued**

***F. External Investment Pool, Continued***

The Port's investments with LAIF at June 30, 2018, 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, 2018 and 2017, the Port had \$11,157,936 and \$13,504,562 respectively (stated at fair value) invested in LAIF, which had invested 2.67% and 2.89% of the pool investment fund in Structured Notes and Asset-Backed Securities.

***G. Investment Valuation***

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments in LAIF and restricted cash and investments included money market accounts and guaranteed investment contracts are not subject to fair value measurement.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**3. CAPITAL ASSETS**

The following is a summary of the Port's capital assets as of June 30, 2017 and 2018:

	2017			2018			
	Balance June 30, 2016	Additions & Transfers	Adjustments & Deletions	Balance June 30, 2017	Additions & Transfers	Adjustments & Deletions	Balance June 30, 2018
Non-depreciable assets:							
Land	\$ 2,520,064	\$ -	\$ -	\$ 2,520,064	\$ -	\$ -	\$ 2,520,064
Construction in progress	2,798,585	725,537	-	3,524,122	7,284,458	(7,853,821)	2,954,759
Total non-depreciable assets	5,318,649	725,537	-	6,044,186	7,284,458	(7,853,821)	5,474,823
Depreciable assets:							
Land improvements	54,002	-	-	54,002	-	-	54,002
Infrastructure	4,773,955	-	-	4,773,955	-	-	4,773,955
Recreational boating facilities	7,435,082	-	(3,570)	7,431,512	-	-	7,431,512
Terminal and facilities	32,260,958	-	-	32,260,958	7,803,555	-	40,064,513
Furniture, fixtures and equipment	356,000	46,319	(20,724)	381,595	59,053	-	440,648
Channel and maritime harbor	3,685,138	-	-	3,685,138	-	-	3,685,138
Total depreciable assets	48,565,135	46,319	(24,294)	48,587,160	7,862,608	-	56,449,768
Accumulated Depreciation:							
Land improvements	(46,339)	(799)	-	(47,138)	(799)	-	(47,937)
Infrastructure	(3,174,880)	(121,465)	-	(3,296,345)	(114,727)	-	(3,411,072)
Recreational boating facilities	(3,796,852)	(180,344)	-	(3,977,196)	(200,113)	-	(4,177,309)
Terminal and facilities	(9,396,882)	(830,678)	-	(10,227,560)	(857,495)	-	(11,085,055)
Furniture, fixtures and equipment	(336,318)	(9,920)	20,724	(325,514)	(15,218)	-	(340,732)
Channel and maritime harbor	(1,755,663)	(419,745)	-	(2,175,408)	(378,436)	-	(2,553,844)
Total accumulated depreciation	(18,506,934)	(1,562,951)	20,724	(20,049,161)	(1,566,788)	-	(21,615,949)
Total depreciable assets, net	30,058,201	(1,516,632)	(3,570)	28,537,999	6,295,820	-	34,833,819
Capital assets, net	\$ 35,376,850	\$ (791,095)	\$ (3,570)	\$ 34,582,185	\$ 13,580,278	\$ (7,853,821)	\$ 40,308,642

Depreciation expense for the fiscal years ended June 30, 2018 and 2017 was as follows:

	June 30	
	2018	2017
Marine terminal	\$ 899,273	\$ 885,309
Infrastructure and general maintenance	425,075	426,177
Recreational boating	200,113	200,389
Commercial	39,873	42,087
Administration	2,454	8,989
Total	\$ 1,566,788	\$ 1,562,951

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**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 its 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, 2017 and 2018 are as follows:

	Balance			Balance			Balance	Due Within	Due in More
	June 30, 2016	Additions	Retirements	June 30, 2017	Additions	Retirements			
2012 Revenue Bonds	\$ 8,637,370	\$ -	\$ (386,916)	\$ 8,250,454	\$ -	\$ (403,483)	\$ 7,846,971	\$ 420,759	\$ 7,426,212
2015 Revenue Bonds	6,575,000	-	(385,000)	6,190,000	-	(395,000)	5,795,000	405,000	5,390,000
Unamortized Bond Discount	(20,873)	-	1,500	(19,373)	-	1,500	(17,873)	-	(17,873)
Total long-term debt	\$ 15,191,497	\$ -	\$ (770,416)	\$ 14,421,081	\$ -	\$ (796,983)	\$ 13,624,098	\$ 825,759	\$ 12,798,339

***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. 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, 2018, future debt service requirements for the 2012 revenue bonds were as follows:

For the Year	Principal	Interest	Total
Ending June 30,			
2019	\$ 420,759	\$ 321,535	\$ 742,294
2020	438,775	303,519	742,294
2021	457,563	284,731	742,294
2022	477,155	265,139	742,294
2023	497,586	244,708	742,294
2024-2028	2,826,352	885,115	3,711,467
2029-2032	2,728,781	240,394	2,969,175
<b>Total</b>	<b>\$ 7,846,971</b>	<b>\$ 2,545,141</b>	<b>\$ 10,392,112</b>



**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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

*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. 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.

At June 30, 2018, future debt service requirements for the 2015 revenue bonds were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2019	\$ 405,000	\$ 199,188	\$ 604,188
2020	415,000	187,037	602,037
2021	435,000	174,588	609,588
2022	445,000	161,538	606,538
2023	460,000	148,188	608,188
2024-2028	2,530,000	508,606	3,038,606
2029-2030	1,105,000	65,800	1,170,800
<b>Total</b>	<b>\$ 5,795,000</b>	<b>\$ 1,444,945</b>	<b>\$ 7,239,945</b>

*Debt Covenants and Restrictions*

For the fiscal year ended June 30, 2018, 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, 2018, the accounts payable and accrued liabilities balance of \$401,601 includes an accrual of \$20,005 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. In November 2017 sampling event was the 6th conservative semi-annual sampling event where all detected concentrations were below the Closure Performance Standards (CPS). In February 2018, DTSC approved termination of the current groundwater monitoring program and removal of all eight remaining groundwater monitoring wells. This site is now available for future lease opportunities and/or commercial development. See Management's Discussion and Analysis for further information.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**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 2018 and 2017 were \$517,634 and \$427,669, 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 Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<b>Miscellaneous</b>		
	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
	Prior to	On or after	On or after
Hire date	October 13, 2011	October 13, 2011	January 1, 2013
Benefit formula	2.7% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	5.75%
Required employer contribution rates	8.777%		
Required payment for Unfunded Accrued Liability	\$0		

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**8. PENSION PLANS, Continued**

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

*Employees Covered* - At June 30, 2018 and 2017, the following employees were covered by the benefit terms for the Plan:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Inactive employees or beneficiaries currently receiving benefits	4	3
Inactive employees entitled to but not yet receiving benefits	0	0
Active employees	<u>10</u>	<u>8</u>
Total	<u><u>14</u></u>	<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 are 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.

*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, 2017 and 2016, using an annual actuarial valuation as of June 30, 2016 and 2015 respectively, rolled forward to June 30, 2017 and 2016 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, 2018 and 2017**

**8. PENSION PLANS, Continued**

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

**Actuarial Assumptions** – The total pension liability in the June 30, 2016 and 2015 actuarial valuations was determined using the following actuarial assumptions:

Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
<b>Actuarial Assumptions:</b>		
Discount Rate	7.15%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.15%, Net of pension plan investment expenses, including inflation	7.65%, Net of pension plan investment expenses, including inflation
Mortality (1)	Derived using CalPERS' Membership data for all funds	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	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75%, thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the results of an 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 7.15% for the Plan for the measurement period ended June 30, 2017 and 7.65% for the measurement period ending June 30, 2016. 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 ran out of assets. Therefore, the 7.15 and 7.65 percent discount rates were adequate and the use of the municipal bond rate calculation was not necessary. The long term expected discount rates of 7.15 and 7.65 percent were 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.

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.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**8. PENSION PLANS, Continued**

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

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	2017-18			2016-17		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.80%	2.27%	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.60%	1.39%	6.00%	0.45%	3.36%
Private Equity	12.00%	6.60%	6.63%	10.00%	6.83%	6.95%
Real Estate	11.00%	2.80%	5.21%	10.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	3.90%	5.36%	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.40%	-0.90%	1.00%	-0.55%	-1.05%
Total	100%			100%		

(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, 2018 and 2017**

**8. PENSION PLANS, Continued**

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

*Changes in the Net Pension Liability*

The changes in the Net Pension Liability for the Plan for the measurement period ended June 30, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2017</b>	\$ 6,814,991	\$ 4,532,287	\$ 2,282,704
<b>Changes in the year:</b>			
Service cost	182,006	-	182,006
Interest on the total pension liability	666,678	-	666,678
Differences between actual and expected experience	8,424	-	8,424
Changes in assumptions	551,649	-	551,649
Change in proportion	540,585	-	540,585
Changes in benefit terms	-	-	-
Contribution - employer	-	198,395	(198,395)
Contribution - employee	-	85,018	(85,018)
Net investment income	-	679,958	(679,958)
Administrative expenses	-	(8,849)	8,849
Benefit payments , including refunds of employee contributions	(405,623)	(405,623)	-
<b>Net changes during 2017-18</b>	<u>1,543,718</u>	<u>548,900</u>	<u>994,818</u>
<b>Balance at June 30, 2018</b>	<u>\$ 8,358,709</u>	<u>\$ 5,081,187</u>	<u>\$ 3,277,522</u>

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**8. PENSION PLANS, Continued**

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

The changes in the Net Pension Liability for the Plan for the measurement period ended June 30, 2017 follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2016</b>	\$ 6,402,180	\$ 4,620,228	\$ 1,781,952
<b>Changes in the year:</b>			
Service cost	133,198	-	133,198
Interest on the total pension liability	558,107	-	558,107
Differences between actual and expected experience	72,632	-	72,632
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	165,636	(165,636)
Contribution - employee	-	69,561	(69,561)
Net investment income	-	30,988	(30,988)
Administrative expenses	-	(3,000)	3,000
Benefit payments , including refunds of employee contributions	(351,126)	(351,126)	-
<b>Net changes during 2016-17</b>	<u>412,811</u>	<u>(87,941)</u>	<u>500,752</u>
<b>Balance at June 30, 2017</b>	<u>\$ 6,814,991</u>	<u>\$ 4,532,287</u>	<u>\$ 2,282,704</u>

**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:

Measurement Date June 30,	2018	2017
1% Decrease	6.15%	6.65%
Net Pension Liability	\$ 4,614,046	\$ 3,530,954
Current Discount Rate	7.15%	7.65%
Net Pension Liability	\$ 3,277,522	\$ 2,282,704
1% Increase	8.15%	8.65%
Net Pension Liability	\$ 2,174,060	\$ 1,673,848

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**8. PENSION PLANS, Continued**

**A. California Public Employees Retirement Plan, 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.

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

For the years ended June 30, 2018 and 2017, the Port recognized pension expense of \$820,351 and \$232,941 respectively. At June 30, 2018 and 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 230,354	\$ -	\$ 198,395	\$ -
Differences between actual and expected experience	26,996	-	45,731	(3,781)
Changes in assumptions	354,631	-	-	(33,208)
Net differences between projected and actual earnings on plan investments	73,446	-	303,823	-
Total	\$ 685,427	\$ -	\$ 547,949	\$ (36,989)

\$230,354 reported as deferred outflows of resources as of June 30, 2018 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019, and \$198,395 reported as deferred outflows of resources as of June 30, 2017 related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Periods ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	\$ 213,625
2019	258,386
2020	34,229
2021	(51,166)
Thereafter	-



**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**8. PENSION PLANS, Continued**

*A. California Public Employees Retirement Plan, Continued*

*Payable to the Pension Plan*

At June 30, 2018 and 2017, the Port reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018 and \$0 for the year ended June 30, 2017.

*B. 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.

The accounting rules governing other post-employment benefits (OPEB) do not require mandatory funding of the actuarial accrued liability or actuarial 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, disbursements and administrative matters. The Section 115 Trust selected was the CalPERS California Employer’s Retiree Benefit Trust Program (“CERBT”).

*Employees Covered*

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	6
Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to, but not yet receiving benefits	-
	8

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**8. PENSION PLANS, Continued**

***B. Other Post-Employment Benefits (OPEB), Continued***

***Contributions***

The OPEB Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Authority and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the Port's cash contributions were \$6,300 in payments to the trust resulting in total payments of \$6,300.

***Net OPEB Liability***

The Port's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

**Actuarial Assumption**

Discount Rate	3.56%
Inflation	2.75% per annum
Salary Increases	Aggregate-3%
Investment Rate of Return	3.56%
Mortality Rate	(1) Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover	(2) Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	6.0%-8.0%

Notes:

(1) Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications

(2) The pre-retirement turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

Because the benefits are not funded, the discount rate is equal to the 20-Year Bond Rate. The Port has chosen to use the "Fidelity General Obligation AA Index" as its 20-year bond rate. That Index was 2.92% at June 30 2016, and 3.56% at June 30, 2017.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**8. PENSION PLANS, Continued**

***B. Other Post-Employment Benefits (OPEB), Continued***

***Discount Rate***

The discount rate used to measure the total OPEB liability was 3.56 percent. The projection of cash flows used to determine the discount rate assumed that Port contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Changes in the OPEB Liability***

The changes in the net OPEB liability for the OPEB Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
<b>Balance at June 30, 2017</b>			
(Measurement date 06/30/2016)	\$ 698,077	\$ -	\$ 698,077
<b>Changes in the year:</b>			
Service cost	14,623	-	14,623
Interest	20,261	-	20,261
Benefit changes	-	-	-
Actual vs. expected experience	-	-	-
Assumption changes	(68,366)	-	(68,366)
Contribution - employer	-	-	-
Contribution - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(8,400)	-	(8,400)
Administrative expenses	-	-	-
<b>Net changes</b>	<b>(41,882)</b>	<b>-</b>	<b>(41,882)</b>
<b>Balance at June 30, 2018</b>			
(Measurement date 06/30/2017)	<u>\$ 656,195</u>	<u>\$ -</u>	<u>\$ 656,195</u>

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**8. PENSION PLANS, Continued**

***B. Other Post-Employment Benefits (OPEB), Continued***

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the net OPEB liability of the Port if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB Liability	\$ 767,778	\$ 656,195	\$ 567,444

*Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates*

The following presents the net OPEB liability of the Port if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease 5.0% to 7.0%	Current Trend Rate 6.0% to 8.0%	1% Increase 7.0% to 9.0%
Net OPEB Liability	\$ 569,745	\$ 656,195	\$ 763,353

***Recognition of Deferred Outflows and Deferred Inflows of Resources***

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (6.2 Years at June 30, 2017)

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**8. PENSION PLANS, Continued**

***B. Other Post-Employment Benefits (OPEB), Continued***

***OPEB Expense and Deferred Outflows/(Inflows) of Resources Related to OPEB***

For the fiscal year ended June 30, 2018, the Port recognized OPEB expense of \$23,857. For the fiscal year ended June 30, 2017, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	\$ 6,300	\$ -
Changes of Assumptions	-	57,339
Net differences between projected and actual earnings on plan investments	-	-
Total	<u>\$ 6,300</u>	<u>\$ 57,339</u>

The \$6,300 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/Inflows of Resources
2019	\$ (11,027)
2020	(11,027)
2021	(11,027)
2022	(11,027)
2023	(11,027)
Thereafter	(2,204)

**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.

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

**10. COMMITMENTS AND CONTINGENCIES**

As of June 30, 2018 and 2017, the Port had committed approximately \$2,423,813 and \$7,101,186 respectively for capital improvement projects and professional services contracts.

The Port had commitments under the following significant capital and other projects and programs for Fiscal years 2018 and 2017:

Project	Committed	
	2018	2017
Wharves 3 & 4 Fendering System	\$ -	\$ 7,043,876
Post-Closure Monitoring & Remediation	3,576	29,300
Dredging Berths 1-4	2,082,524	-
Restrooms Improvement Projects	155,841	-
C-Dock Electrical Improvement Projects	181,872	-
Other miscellaneous projects	-	28,010
Total Commitments	<u>\$ 2,423,813</u>	<u>\$ 7,101,186</u>

**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
2019	7,702	283
2020	8,626	-
Total minimum future lease payments	<u>\$ 16,328</u>	<u>\$ 283</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, 2018, the ratio of Net Revenues to the debt service payments due during Fiscal Year 2018 was 3.38 (338%).

**Port of Redwood City**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2018 and 2017**

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**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, 2018, the DSCR was 3.38.

**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, 2018, unrestricted cash reserves were 3.0 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, 2018, the Debt Service Coverage Ratio was 3.38 (338%).

**15. PRIOR PERIOD ADJUSTMENTS**

The Port recorded prior period adjustment as part of the implementation of new accounting standards relating to Other Postemployment Benefits (GASB 75) as follow:

Net Position, as Previously Reported	Prior Period Adjustment			Net Position as Restated
	Net OPEB Obligation	Net OPEB Liability	OPEB Deferred Contribution	
\$ 36,538,378	\$ 262,219	\$ (698,077)	\$ 8,400	\$ 36,110,920

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**Port of Redwood City**  
**Required Supplementary Information**  
**For the year ended June 30, 2018**

**1. DEFINED BENEFIT PENSION PLAN**

*A. Schedule of Changes in Net Pension Liability and Related Ratios - Last 10 Years\**

Miscellaneous Plan

Measurement Period (1)	2016-17	2015-16	2014-15	2013-14
<b>TOTAL PENSION LIABILITY</b>				
Service Cost	\$ 182,006	\$ 133,198	\$ 114,428	\$ 115,620
Interest	666,678	558,107	473,041	440,975
Changes of Benefit Terms	-	72,632	-	-
Difference Between Expected and Actual Experience	8,423	-	(13,055)	-
Changes of Assumptions	551,649	-	(114,655)	-
Changes in proportion	540,585	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(405,623)	(351,126)	(301,643)	(268,758)
<b>Net Change in Total Pension Liability</b>	<b>1,543,718</b>	<b>412,811</b>	<b>158,116</b>	<b>287,837</b>
<b>Total Pension Liability - Beginning</b>	<b>6,814,991</b>	<b>6,402,180</b>	<b>6,244,064</b>	<b>5,956,227</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 8,358,709</b>	<b>\$ 6,814,991</b>	<b>\$ 6,402,180</b>	<b>\$ 6,244,064</b>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contributions - Employer	\$ 198,395	\$ 165,636	\$ 158,716	\$ 150,269
Contributions - Employee	85,018	69,561	56,707	60,404
Net Investment Income (2)	671,110	27,988	102,554	697,965
Benefit Payments, Including Refunds of Employee Contributions	(405,623)	(351,126)	(301,643)	(268,758)
<b>Net Change in Fiduciary Net Position</b>	<b>548,900</b>	<b>(87,941)</b>	<b>16,334</b>	<b>639,880</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>4,532,287</b>	<b>4,620,228</b>	<b>4,603,894</b>	<b>3,964,014</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 5,081,187</b>	<b>\$ 4,532,287</b>	<b>\$ 4,620,228</b>	<b>\$ 4,603,894</b>
<b>Plan Net Position Liability/(Asset) - Ending (a) - (b)</b>	<b>\$ 3,277,522</b>	<b>\$ 2,282,704</b>	<b>\$ 1,781,952</b>	<b>\$ 1,640,170</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>60.79%</b>	<b>66.50%</b>	<b>72.17%</b>	<b>73.73%</b>
<b>Covered Payroll</b>	<b>\$ 754,684</b>	<b>\$ 716,024</b>	<b>\$ 655,667</b>	<b>\$ 636,746</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll</b>	<b>434.29%</b>	<b>318.80%</b>	<b>271.78%</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, 2016. 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: In 2017, the accounting discount rate reduced from 7.65 to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

**Port of Redwood City**  
**Required Supplementary Information**  
**For the year ended June 30, 2018**

**1. DEFINED BENEFIT PENSION PLAN, Continued**

**B. SCHEDULE OF CONTRIBUTIONS - Last 10 Years\***

Miscellaneous Plan (1)

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Actuarially determined contribution	\$ 230,354	\$ 198,395	\$ 165,636	\$ 158,716
Contribution in relation to the actuarially determined contributions	<u>(230,354)</u>	<u>(198,395)</u>	<u>(165,636)</u>	<u>(158,716)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 856,970	\$ 754,684	\$ 716,024	\$ 655,667
Contributions as a percentage of covered-employee payroll	26.88%	26.29%	23.13%	24.21%

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

**Port of Redwood City**  
**Required Supplementary Information**  
**For the year ended June 30, 2018**

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**2. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

*A. Schedule of Changes in Net OPEB Liability and Related Ratios - Last 10 Years\**

Measurement Period	(1)(2)	<u>2016-17</u>
<b>TOTAL OPEB LIABILITY</b>		
Service Cost		\$ 14,623
Interest		20,261
Changes of Benefit Terms		-
Difference Between Expected and Actual Experience		-
Changes of Assumptions		(68,366)
Benefit Payments, Including Refunds of Employee Contributions		<u>(8,400)</u>
<b>Net Change in Total OPEB Liability</b>		<b>(41,882)</b>
<b>Total OPEB Liability - Beginning</b>		<u>698,077</u>
<b>Total OPEB Liability - Ending (a)</b>		<u><u>\$ 656,195</u></u>
<b>Covered Payroll</b>		<b>\$ 609,562</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll</b>		<b>116.70%</b>

(1)\* Historical information is required only for measurement periods for which GASB 75 is applicable.

(2) Fiduciary Net Position is \$0.

**Port of Redwood City**  
**Required Supplementary Information**  
**For the year ended June 30, 2018**

**2. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued**

*B. Schedule of Contributions - Last 10 Years\**

Fiscal Year Ended June 30	2018
Actuarially Determined Contribution (ADC)	\$ -
Contributions in relation to the ADC	6,300
Contribution deficiency (excess)	6,300
Covered-employee payroll	632,232
Contributions as a percentage of covered-employee payroll	1.0%

**Notes to Schedule:**

**Methods and assumptions used to determine contributions:**

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Straightline Amortization
Asset Valuation Method	Market value
Inflation	2.75%
Payroll Growth	3% annual increases
Investment Rate of Return	3.56%
Healthcare cost-trend rates	6.0% to 8.0%
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

\* Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.



**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, 2018 and 2016, 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 7, 2018.

**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.

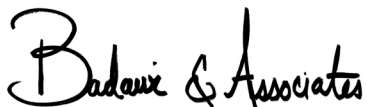
To the Board of Commissioners  
Of the Port of Redwood City  
Redwood City, California  
Page 2

### **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 7, 2018