

**PORT OF REDWOOD CITY,
REDWOOD CITY, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

**Port of Redwood City
Basic Financial Statements
For the years ended June 30, 2019 and 2018**

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INDEPENDENT AUDITOR'S 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 year ended June 30, 2019, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port'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 Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2019, and the changes in financial positions and 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 and other required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2020 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.

Prior Year Comparative Information

The financial statements and the related notes of the Port as of June 30, 2018, were audited by other auditors whose report dated December 7, 2018, expressed an unmodified opinion on those statements.

Maze & Associates

Pleasant Hill, California
April 7, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The Port of Redwood City has issued its financial statements for the fiscal year ended June 30, 2019 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 2019 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 2019, 2018, and 2017.

Table A

	FY19	FY18	FY19 vs. FY18	FY17	FY18 vs. FY17
			Change		Change
Assets					
Current Assets	\$ 17,201,342	\$ 15,561,065	\$ 1,640,277	\$ 18,943,326	\$ (3,382,261)
Capital Assets, Net	39,589,625	40,308,642	(719,017)	34,582,185	5,726,457
All Other Assets	423,731	425,903	(2,172)	428,075	(2,172)
Total Assets	57,214,698	56,295,610	919,088	53,953,586	2,342,024
Deferred Outflow of Resources					
Loss on Bond Refunding	196,477	214,333	(17,856)	232,189	(17,856)
Pension Related	190,404	455,073	(264,669)	349,554	105,519
Pension Contributions	262,674	230,354	32,320	198,395	31,959
OPEB contributions	0	6,300	(6,300)	-	6,300
Total Deferred Outflows	649,555	906,060	(256,505)	780,138	125,922
Liabilities					
Current Liabilities	2,350,349	2,379,855	(29,506)	1,990,836	389,019
Non-current Liabilities	15,727,558	16,732,056	(1,004,498)	16,167,524	564,532
Total Liabilities	18,077,907	19,111,911	(1,034,004)	18,158,360	953,551
Deferred Inflow of Resources					
OPEB Related	51,281	57,339	(6,058)	-	57,339
Pension Related	49,681	-	49,681	36,989	(36,989)
Total Deferred Inflows	100,962	57,339	43,623	36,989	20,350
Net Position					
Net Investment in					
Capital Assets	32,359,890	32,676,004	(316,114)	26,331,731	6,344,273
Restricted for Bebt Service	853,775	833,822	19,953	826,308	7,514
Unrestricted	6,471,719	4,522,594	1,949,125	9,380,339	(4,857,745)
Total Net Position	\$ 39,685,384	\$ 38,032,420	\$ 1,652,964	\$ 36,538,378	\$ 1,494,042

The increase in Net Position between June 30, 2019 and June 30, 2018 is due to the profitable operation of the Port for the fiscal year July 1, 2018 to June 30, 2019.

The \$1,652,964 increase in FY19 Total Net Position is comprised of:

\$ 2,213,096 - Net income for the year
 < 560,132 > - Less subvention to the City of Redwood City.

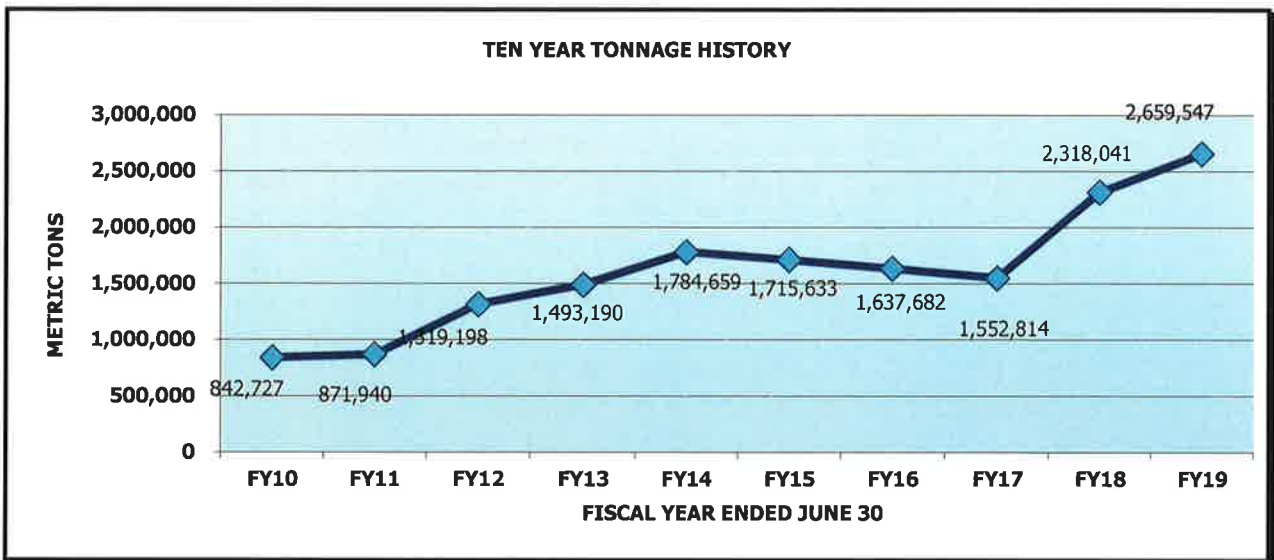
 \$ 1,652,964

FINANCIAL ACTIVITIES & FISCAL YEAR 2019 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 2019 (FY19) the Port's tonnage was 2,659,547 metric tons, 15% up from 2,318,041 metric tons in FY18, setting a record for Port tonnage.

The recession of FY09-10 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 2019 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 2019, 2018 and 2017.

Table B

	FY19	FY18	FY19 vs. FY18	FY17	FY18 vs. FY17
			Change		Change
Revenue					
Operating Revenue	\$ 9,335,548	\$ 8,627,231	\$ 708,317	\$ 7,127,814	\$ 1,499,417
Interest Income	305,027	190,440	114,587	107,911	82,529
Other Non-Operating Income	91,227	38,630	52,597	32,768	5,862
Total Revenue	<u>9,731,802</u>	<u>8,856,301</u>	<u>875,501</u>	<u>7,268,493</u>	<u>1,587,808</u>
Expense					
Operations	5,089,805	3,364,236	1,725,569	3,176,718	187,518
Administration	1,876,541	2,448,344	(571,803)	1,492,811	955,533
Operating Expense	6,966,346	5,812,580	1,153,766	4,669,529	1,143,051
Interest Expense	538,926	569,536	(30,610)	595,005	(25,469)
Other Non-Operating Expense	13,438	35,051	(21,613)	28,548	6,503
Total Expense	<u>7,518,710</u>	<u>6,417,167</u>	<u>1,101,543</u>	<u>5,293,082</u>	<u>1,124,085</u>
Excess (Deficiency) before					
Contributions, Special &					
Extraordinary Items & Transfers	2,213,096	2,439,134	(226,042)	1,975,411	463,723
Transfers (Subvention)	(560,132)	(517,634)	(42,498)	(427,669)	(89,965)
Net Income	<u>\$ 1,652,964</u>	<u>\$ 1,921,500</u>	<u>\$ (268,540)</u>	<u>\$ 1,547,742</u>	<u>\$ 373,758</u>

Port's operating revenue for Fiscal Year 2019 increased by almost 10.0% or \$875,500 compared to Fiscal Year 2018, 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 2019 the Port will pay subvention of \$560,132 to the City.

FINANCIAL ACTIVITIES & FISCAL YEAR 2019 HIGHLIGHTS, CONTINUED

Capital Assets

At June 30, 2019 the Port had \$62,919,673 in capital assets and \$23,330,054 accumulated depreciation, resulting in net capital assets of \$39,589,619. A summary of the activity and balances in capital assets is presented in Table C below.

Table C

	June 30, 2018	Additions & Transfers	Deletions & Transfers	June 30, 2019
Land and Land Improvements	\$ 2,574,066	\$ -	\$ -	\$ 2,574,066
Infrastructure	4,773,955	-	-	4,773,955
Recreational Boating Facilities	7,431,512	219,773	-	7,651,285
Terminal & Facilities	40,064,513	-	-	40,064,513
Furniture, Fixtures & Equipment	440,648	153,409	-	594,057
Channel and Maritime Harbor	3,685,138	633,946	-	4,319,084
Construction in Progress	2,954,759	2,294,512	(2,306,552)	2,942,719
Total Capital Assets	61,924,591	3,301,640	(2,306,552)	62,919,679
Accumulated Depreciation	(21,615,949)	(1,714,105)	-	(23,330,054)
Capital Assets, Net	\$ 40,308,642	\$ 1,587,535	\$ (2,306,552)	\$ 39,589,625

At June 30, 2019, of the \$2,942,719 balance in Construction in Progress \$2,322,289 pertains to the Channel Deepening Feasibility Study and the remaining \$620,430 to the other projects underway including Marina Improvements, Public Access/Fishing Pier renovation and enhance Inter-agency Operations Center (IOC).

Debt Administration

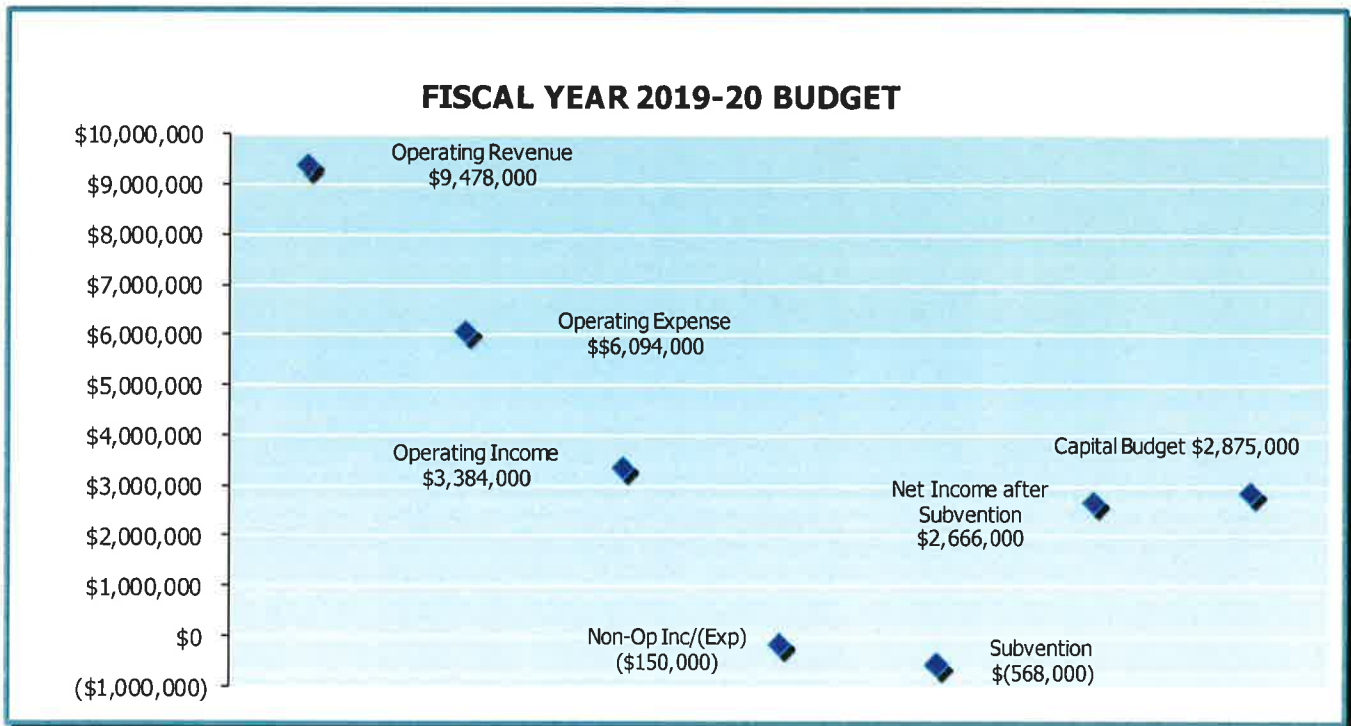
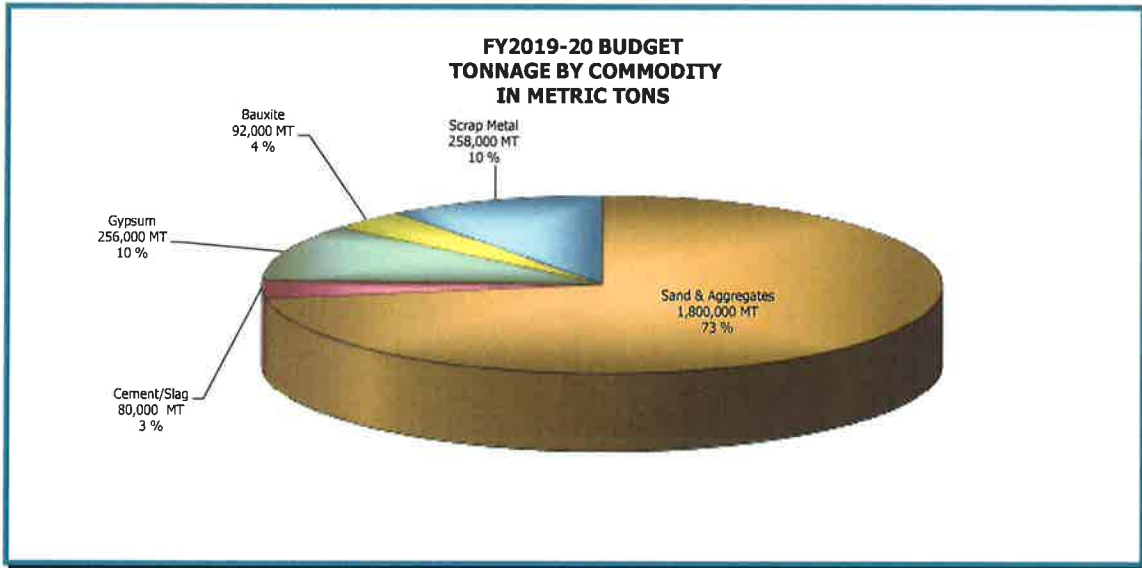
At June 30, 2019, the Port had the following debt obligations:

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, 2019 is \$7,426,212. 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, 2019 is \$5,390,000. 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 2020 (FY2019-20) budget for import and export tonnage was based on the expectations of its key customers with regard to their particular markets. At almost 2.5 million metric tons, the FY2019-20 tonnage budget is 11% higher than FY2018-19 budget, reflecting increase in demand for construction materials in the Port's region.



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 May of 2018 sampling event was the 6th consecutive semi-annual sampling event where all detected concentrations were below the Closure Performance Standards (CPS). In February 2019, 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.

On November 14, 2019, the Port entered into an agreement with Vickerman & Associates, LLC to develop a visioning plan for the Port's short-term and long-term business growth. Vickerman & Associates, LLC is well known in the maritime industry as leaders in planning port facilities and maximizing real estate asset opportunities.

GOALS FOR Fy2019-20:

- Continue to 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
- Adopt Port's Vision Plan (2019)
- Enhance the Interagency Emergency Operations (IOC) Center
- Collaborate with City for the development of public Ferry Service
- Promote the Port as a multi-modal hub
- Strategize communication opportunities and continue collaboration with the City
- 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

Port of Redwood City
Comparative Statements of Net Position
For the years ended June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and investments (Note 2)	\$ 13,764,725	\$ 12,572,821
Restricted cash and investments (Note 2)	1,091,998	1,072,328
Total cash and investments and restricted cash and investments	<u>14,856,723</u>	<u>13,645,149</u>
Receivables:		
Accounts, net	2,026,941	1,622,710
Prepaid items	317,678	293,206
Total current assets	<u>17,201,342</u>	<u>15,561,065</u>
Noncurrent assets:		
Silicon Valley Clean Water capacity rights (Note 4)	400,000	400,000
Prepaid bond insurance	23,731	25,903
Capital assets (Note 3):		
Non-depreciable assets	5,462,783	5,474,823
Depreciable assets, net	34,126,842	34,833,819
Total capital assets, net	<u>39,589,625</u>	<u>40,308,642</u>
Total noncurrent assets	<u>40,013,356</u>	<u>40,734,545</u>
Total assets	<u>57,214,698</u>	<u>56,295,610</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow of resources - loss on bond refunding	196,477	214,333
Deferred outflows of resources - Pension contributions (Note 8)	190,404	455,073
Deferred outflow of resources - Pension related (Note 8)	262,674	230,354
Deferred outflow of resources - OPEB contributions (Note 9)	-	6,300
Total deferred outflow of resources	<u>649,555</u>	<u>906,060</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 6)	341,005	401,447
Accrued payroll and benefits payable	98,049	117,329
Unearned revenue	175,431	175,385
Refundable deposits	280,505	297,524
Interest payable	41,452	44,777
Subvention payable (Note 7)	560,132	517,634
Long-term debt - due within one year (Note 5)	853,775	825,759
Total current liabilities	<u>2,350,349</u>	<u>2,379,855</u>
Long-term liabilities:		
Net OPEB liabilities (Note 9)	676,783	656,195
Net pension liabilities (Note 8)	3,104,711	3,277,522
Long-term debt - due in more than one year (Note 5)	11,946,064	12,798,339
Total noncurrent liabilities	<u>15,727,558</u>	<u>16,732,056</u>
Total liabilities	<u>18,077,907</u>	<u>19,111,911</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow of resources - OPEB related (Note 9)	51,281	57,339
Deferred inflow of resources - pension related (Note 8)	49,681	-
Total Deferred inflow of resources	<u>100,962</u>	<u>57,339</u>
NET POSITION		
Net Investment in Capital Assets	32,359,890	32,676,004
Restricted for Debt service	853,775	833,822
Unrestricted	6,471,719	4,522,594
Total net position	<u>\$ 39,685,384</u>	<u>\$ 38,032,420</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES:		
Marine terminal:		
Rentals-maritime	\$ 2,316,047	\$ 2,196,096
Wharfage	2,791,700	2,383,600
Dockage	856,569	669,531
Facilities usage	431,217	575,892
Line handling	742,049	651,096
Services and miscellaneous	35,399	22,051
Total marine terminal	<u>7,172,981</u>	<u>6,498,266</u>
Rentals - commercial	1,482,395	1,454,161
Recreational boating	575,711	569,791
Other operating revenue	104,461	105,013
Total operating revenues	<u>9,335,548</u>	<u>8,627,231</u>
OPERATING EXPENSES:		
Marine terminal	3,528,248	1,875,519
Recreational boating	573,926	560,847
Commercial	263,859	241,757
Infrastructure and general maintenance	723,772	686,113
Administration and general expenses	1,876,541	2,448,344
Total operating expenses	<u>6,966,346</u>	<u>5,812,580</u>
OPERATING INCOME	<u>2,369,202</u>	<u>2,814,651</u>
NONOPERATING REVENUE (EXPENSES):		
Interest income	305,027	190,440
Interest expense	(538,926)	(569,536)
Grant income	31,757	3,369
Other income (expense), net	46,036	210
Total nonoperating expenses	<u>(156,106)</u>	<u>(375,517)</u>
Net income before subvention to the City of Redwood City	2,213,096	2,439,134
Subvention to City of Redwood City (Note 7)	(560,132)	(517,634)
NET POSITION:		
Beginning of year	<u>38,032,420</u>	<u>36,110,920</u>
End of year	<u>\$ 39,685,384</u>	<u>\$ 38,032,420</u>

See accompanying Notes to Basic Financial Statements.

Port of Redwood City
Comparative Statements of Cash Flows
For the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and other funds	\$ 8,931,317	\$ 7,796,628
Cash payments to suppliers for goods and services	(3,477,587)	(1,575,468)
Cash payments to employees for services	(1,765,772)	(1,606,312)
Net cash provided by operating activities	3,687,958	4,614,848
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash payments of subvention to the City of Redwood City	(517,634)	(427,669)
Other nonoperating revenues	77,793	3,579
Net cash used by noncapital financing activities	(439,841)	(424,090)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(824,259)	(798,329)
Interest paid on debt	(522,223)	(549,849)
Acquisition and construction of capital assets	(995,088)	(7,293,245)
Net cash used by capital and related financing activities	(2,341,570)	(8,641,423)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	305,027	190,440
Net cash provided by investing activities	305,027	190,440
Net change in cash and cash equivalents	1,211,574	(4,260,225)
CASH AND CASH EQUIVALENTS:		
Beginning of year	13,645,149	17,905,374
End of year	\$ 14,856,723	\$ 13,645,149
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 2,369,202	\$ 2,814,651
Adjustments to reconcile operating income		
(loss) to net cash provided by operating activities:		
Depreciation and amortization	1,714,105	1,566,788
(Increase) decrease in assets :		
Accounts receivable	(404,231)	(830,603)
Prepaid expenses	(24,472)	(47,361)
(Increase) decrease in deferred outflow of resources:		
Deferred outflow of resources - OPEB employer contributions	6,300	2,100
Deferred outflows of resources - pension	264,669	(105,519)
Deferred outflow of resources - pension employer contributions	(32,320)	(31,959)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(60,442)	136,350
Accrued payroll and benefits	(19,280)	4,124
Unearned revenue	46	53
Refundable deposits	(17,019)	132,938
Net OPEB Liability	20,588	(41,882)
Net pension liability	(172,811)	994,818
Increase (decrease) in deferred inflow of resources:		
Deferred inflow of resources - OPEB related amounts	(6,058)	(36,989)
Deferred inflow of resources - pension related amounts	49,681	57,339
Net cash provided by operating activities	\$ 3,687,958	\$ 4,614,848

See accompanying Notes to Basic Financial Statements.

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.

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:

Building 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.

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 2019, the Port adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Port updated the Long-Term Debt footnote 5 as part of implementation of this statement.

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 1st. 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2018
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

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, 2019 and 2018

2. CASH AND INVESTMENTS

A. Summary of Cash and Investments

Deposits and investments held by the Port at June 30, 2019 and 2018 are summarized below:

Cash and Investments:	Fair Value	
	2019	2018
Demand Deposits:		
Deposits	\$ 1,304,755	\$ 1,413,885
Petty cash	1,000	1,000
Investments:		
Local Agency Investment Fund	12,458,970	11,157,936
Total unrestricted cash and investments	13,764,725	12,572,821
Restricted Cash and Investments:		
Held in escrow	175,430	175,385
Held by fiscal agent	916,568	896,943
Total restricted cash and investments	1,091,998	1,072,328
Total unrestricted and restricted cash and investments	\$ 14,856,723	\$ 13,645,149

B. Cash Deposits

As of June 30, 2019 and 2018, the carrying amount of the Port’s cash deposits were \$1,304,755 and \$1,413,885 respectively; bank balances before reconciling items were \$1,681,619 and \$1,170,864 respectively, of which \$250,000 was fully insured and \$1,256,187 and \$920,864 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.

As of June 30, 2019 and 2018, the Port had \$1,092,000 and \$1,072,328 respectively in total restricted cash and investments. The amount held by fiscal agents pledged for the payment of certain bonds as of June 30, 2019 and 2018 was \$916,568 and \$896,943, respectively; the amount held in escrow and by fiscal agents pledged for future asset acquisitions was \$175,430 and \$175,385 respectively. The California Government Code requires these funds to be invested in accordance with any applicable Port ordinance, resolution or bond indenture, unless there are specific State statutes governing their investment. These funds have been invested only as permitted by the Investment Policy.

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

2. CASH AND INVESTMENTS, Continued

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.

Cash Deposits

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

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

2. CASH AND INVESTMENTS, Continued

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, 2019, by multiplying its account balance with LAIF times a fair value factor computed by LAIF. As of June 30, 2019, the Port had \$12,437,679 in LAIF with fair value factor of 1.001711790. As of June 30, 2018, the Port had \$11,178,875 in LAIF with fair value factor of 0.998126869. 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, 2019 and 2018, the Port's investments in LAIF stated at fair value equaled \$12,458,970 and \$11,157,936 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 (\$21,291) and (\$20,939), for the years ended June 30, 2019 and 2018, respectively.

The Port's investments with LAIF at June 30, 2019, 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, 2019 and 2018, the Port had \$12,458,970 and \$11,157,936 respectively (stated at fair value) invested in LAIF, which had invested 1.77% and 2.67% of the pool investment fund in Structured Notes and Asset-Backed Securities.

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

2. CASH AND INVESTMENTS, Continued

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.

3. CAPITAL ASSETS

The following is a summary of the Port's capital assets as of June 30, 2018 and 2019:

	2018			2019			
	Balance June 30, 2017	Additions & Transfers	Adjustments & Deletions	Balance June 30, 2018	Additions	Adjustments & Transfers	Balance June 30, 2019
Non-depreciable assets:							
Land	\$ 2,520,064	\$ -	\$ -	2,520,064	\$ -	\$ -	\$ 2,520,064
Construction in progress	3,524,122	7,284,458	(7,853,821)	2,954,759	2,294,512	(2,306,552)	2,942,719
Total non-depreciable assets	6,044,186	7,284,458	(7,853,821)	5,474,823	2,294,512	(2,306,552)	5,462,783
Depreciable assets:							
Land improvements	54,002	-	-	54,002	-	-	54,002
Infrastructure	4,773,955	-	-	4,773,955	-	-	4,773,955
Recreational boating facilities	7,431,512	-	-	7,431,512	-	219,773	7,651,285
Terminal and facilities	32,260,958	7,803,555	-	40,064,513	-	-	40,064,513
Furniture, fixtures and equipment	381,595	59,053	-	440,648	-	153,409	594,057
Channel and maritime harbor	3,685,138	-	-	3,685,138	-	633,946	4,319,084
Total depreciable assets	48,587,160	7,862,608	-	56,449,768	-	1,007,128	57,456,896
Accumulated Depreciation:							
Land improvements	(47,138)	(799)	-	(47,937)	(799)	-	(48,736)
Infrastructure	(3,296,345)	(114,727)	-	(3,411,072)	(113,373)	-	(3,524,445)
Recreational boating facilities	(3,977,196)	(200,113)	-	(4,177,309)	(223,366)	-	(4,400,675)
Terminal and facilities	(10,227,560)	(857,495)	-	(11,085,055)	(978,786)	-	(12,063,841)
Furniture, fixtures and equipment	(325,514)	(15,218)	-	(340,732)	(14,062)	-	(354,794)
Channel and maritime harbor	(2,175,408)	(378,436)	-	(2,553,844)	(383,719)	-	(2,937,563)
Total accumulated depreciation	(20,049,161)	(1,566,788)	-	(21,615,949)	(1,714,105)	-	(23,330,054)
Total depreciable assets, net	28,537,999	6,295,820	-	34,833,819	(1,714,105)	1,007,128	34,126,842
Capital assets, net	\$ 34,582,185	\$ 13,580,278	\$ (7,853,821)	\$ 40,308,642	\$ 580,407	\$ (1,299,424)	\$ 39,589,625

Depreciation expense for the fiscal years ended June 30, 2019 and 2018 was as follows:

	June 30	
	2019	2018
Marine terminal	\$ 978,786	\$ 899,273
Infrastructure and general maintenance	458,018	425,075
Recreational boating	223,366	200,113
Commercial	39,873	39,873
Administration	14,062	2,454
Total	\$ 1,714,105	\$ 1,566,788

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

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, 2018 and 2019 are as follows:

	Balance			Balance			Balance	Due Within	Due in More
	June 30, 2017	Additions	Retirements	June 30, 2018	Additions	Retirements			
2012 Revenue Bonds	\$ 8,250,454	\$ -	\$ (403,483)	\$ 7,846,971	\$ -	\$ (420,759)	\$ 7,426,212	\$ 438,775	\$ 6,987,437
2015 Revenue Bonds	6,190,000	-	(395,000)	5,795,000	-	(405,000)	5,390,000	415,000	4,975,000
Unamortized Bond Discount	(19,373)	-	1,500	(17,873)	-	1,500	(16,373)	-	(16,373)
Total long-term debt	\$ 14,421,081	\$ -	\$ (796,983)	\$ 13,624,098	\$ -	\$ (824,259)	\$ 12,799,839	\$ 853,775	\$ 11,946,064

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.

The Revenue Bonds are general obligations of the Port, payable solely from operating revenues. The bond covenants contain events of default that require the revenue of the City to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: default on debt service payments; the failure of the City to observe or perform the conditions, covenants, or agreement terms of the debt; bankruptcy filing by the City; or if any court or competent jurisdiction shall assume custody or control of the City. No such events occurred during the fiscal year ending June 30, 2019.

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

5. LONG-TERM DEBT, Continued

At June 30, 2019, future debt service requirements for the 2012 revenue bonds were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2020	\$ 438,775	\$ 303,518	\$ 742,293
2021	457,563	284,731	742,294
2022	477,155	265,139	742,294
2023	497,586	244,708	742,294
2024	518,891	223,403	742,294
2025-2029	2,947,372	764,096	3,711,468
2030-2032	2,088,870	138,010	2,226,880
Total	\$ 7,426,212	\$ 2,223,605	\$ 9,649,817

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.

The Revenue Bonds are general obligations of the Port, payable solely from operating revenues. The bond covenants contain events of default that require the revenue of the City to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: default on debt service payments; the failure of the City to observe or perform the conditions, covenants, or agreement terms of the debt; bankruptcy filing by the City; or if any court or competent jurisdiction shall assume custody or control of the City. No such events occurred during the fiscal year ending June 30, 2019.

At June 30, 2019, future debt service requirements for the 2015 revenue bonds were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2020	\$ 415,000	\$ 187,038	\$ 602,038
2021	435,000	174,588	609,588
2022	445,000	161,538	606,538
2023	460,000	148,188	608,188
2024	475,000	134,388	609,388
2025-2029	2,620,000	418,419	3,038,419
2030-2032	540,000	21,600	561,600
Total	\$ 5,390,000	\$ 1,245,759	\$ 6,635,759

5. LONG-TERM DEBT, Continued

Debt Covenants and Restrictions

For the fiscal year ended June 30, 2019, 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, 2019, the accounts payable and accrued liabilities balance of \$341,005 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.

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 payable to the City for fiscal years 2019 and 2018 were \$560,132 and \$517,634, 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.

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

8. PENSION PLANS, Continued

A. California Public Employees Retirement Plan, Continued

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	Tier 3
Hire date	Prior to October 13, 2011	On or after October 13, 2011	On or after 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	55	60	62
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%	6.25%
Required employer contribution rates		8.961%	
Required payment for Unfunded Accrued Liability		\$0	

Employees Covered - At June 30, 2019 and 2018, the following employees were covered by the benefit terms for the Plan:

	June 30, 2019	June 30, 2018
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	0	0
Active employees	10	10
Total	14	14

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, 2018 and 2017, using an annual actuarial valuation as of June 30, 2017 and 2016 respectively, rolled forward to June 30, 2018 and 2017 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, 2019 and 2018

8. PENSION PLANS, Continued

A. California Public Employees Retirement Plan, Continued

Actuarial Assumptions - The total pension liability in the June 30, 2018 and 2017 actuarial reports was determined using the following actuarial assumptions:

Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	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	7.15%, 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 2.50% 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 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 and 2017 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.

Change of Assumptions - For the measurement date of June 30, 2018, the inflation rate reduced from 2.75% to 2.50%.

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, 2018 and 7.15% for the measurement period ending June 30, 2017. 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 percent discount rate was adequate and the use of the municipal bond rate calculation was not necessary. The long term expected discount rates of 7.15 percent was 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.

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

8. PENSION PLANS, Continued

A. California Public Employees Retirement Plan, Continued

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

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

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

Asset Class	2018-19			2017-18		
	New Strategic	Real Return	Real Return	New Strategic	Real Return	Real Return
	Allocation	Years 1 - 10(a)	Years 11+(b)	Allocation	Years 1 - 10(a)	Years 11+(b)
Global Equity	50.00%	4.80%	5.98%	47.00%	4.90%	5.38%
Global Fixed Income	28.00%	1.00%	2.62%	19.00%	0.80%	2.27%
Inflation Sensitive	0.00%	0.77%	1.81%	6.00%	0.60%	1.39%
Private Equity	8.00%	6.30%	7.23%	12.00%	6.60%	6.63%
Real Estate	13.00%	3.75%	4.93%	11.00%	2.80%	5.21%
Infrastructure and Forestland	0.00%			3.00%	3.90%	5.36%
Liquidity	1.00%	0.00%	-0.92%	2.00%	-0.40%	-0.90%
Total	100%			100%		

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

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, 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability / (Asset)
Balance at June 30, 2018	\$ 8,358,709	\$ 5,081,187	\$ 3,277,522
Changes in the year:			
Service cost	185,591	-	185,591
Interest on the total pension liability	668,448	-	668,448
Differences between actual and expected experience	48,082	-	48,082
Changes in assumptions	(74,522)	-	(74,522)
Change in proportion	-	-	-
Changes in benefit terms	-	-	-
Net Plan to Plan Resource Movement	-	-	-
Contribution - employer	-	277,848	(277,848)
Contribution - employee	-	82,020	(82,020)
Net investment income	-	669,196	(669,196)
Administrative expenses	-	(9,884)	9,884
Benefit payments , including refunds of employee contributions	(418,112)	(418,112)	-
Other Miscellaneous Income/ (Expense)	-	(18,769)	18,769
Net changes during 2018-19	409,488	582,299	(172,811)
Balance at June 30, 2019	\$ 8,768,197	\$ 5,663,486	\$ 3,104,711

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,	2019	2018
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 4,423,770	\$ 4,614,046
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 3,104,711	\$ 3,277,522
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 2,013,031	\$ 2,174,060

Port of Redwood City
 Notes to Basic Financial Statements
 For the years ended June 30, 2019 and 2018

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, 2019 and 2018, the Port recognized pension expense of \$400,573 and \$820,351 respectively. At June 30, 2019 and 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019		June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 262,674	\$ -	\$ 230,354	\$ -
Differences between actual and expected experience	34,367	-	26,996	-
Changes in assumptions	151,433	(49,681)	354,631	-
Net differences between projected and actual earnings on plan investments	4,604	-	73,446	-
Total	\$ 453,078	\$ (49,681)	\$ 685,427	\$ -

\$262,674 reported as deferred outflows of resources as of June 30, 2019 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, 2020, and \$230,354 reported as deferred outflows of resources as of June 30, 2018 related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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:	Annual Amortization
2019	\$ 221,032
2020	5,665
2021	(67,567)
2022	(18,408)
Total	\$ 140,723

8. PENSION PLANS, Continued

A. California Public Employees Retirement Plan, Continued

Payable to the Pension Plan

At June 30, 2019 and 2018, the Port reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019 and \$0 for the year ended June 30, 2018.

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The Cost-sharing Multiple Employer Other Post-employment Benefits Plan 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, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	5
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to, but not yet receiving benefits	-
	<u>8</u>

9. 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, 2019, the Port expensed and paid \$9,426 for the current retirees.

Net OPEB Liability

The Port's net OPEB liability was measured as of June 30, 2018 and 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2018 and 2017, respectively, based on the following actuarial methods and assumptions:

Actuarial Assumption

Discount Rate	Based on the Fidelity General Obligation AA Index
Inflation	3.62% as of June 30, 2018
Salary Increases	3.0% including inflation
Investment Rate of Return	3.56%
Healthcare Trend Rate	Medical premiums assumed to increase 8.0% in 2019 and 2020, 7.0% in 2021 through 2030, and 6.0% each year thereafter.
Mortality Rate	Based on the 2014 CalPERS OPEB Assumptions Model

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 3.56% at June 30 2017, and 3.62% at June 30, 2018.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.62 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.

Port of Redwood City
 Notes to Basic Financial Statements
 For the years ended June 30, 2019 and 2018

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB), Continued

Changes in the Total OPEB Liability

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

	Total OPEB Liability
Balance at June 30, 2018	
(Measurement date 06/30/2017)	\$ 656,195
Changes in the year:	
Service cost	12,746
Interest on the total pension liability	23,193
Differences between actual and expected experience	-
Changes in assumptions	(5,925)
Change in proportion	-
Change in benefit terms	-
Contribution - employer	-
Contribution - employee	-
Net investment income	-
Benefit payments	(9,426)
Administrative expenses	-
Other Miscellaneous Income/ (Expense)	-
Net changes	<u>20,588</u>
Balance at June 30, 2019	
(Measurement date 06/30/2018)	<u>\$ 676,783</u>

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, 2018:

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Net OPEB Liability	\$ 787,003	\$ 676,783	\$ 588,823

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB), Continued

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, 2018:

	1% Decrease (5% to 7%)	Current Trend Rate (6% to 8%)	1% Increase (4.56%)
Net OPEB Liability	\$ 586,339	\$ 676,783	\$ 788,889

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, 2018)

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

For the fiscal year ended June 30, 2019, the Port recognized OPEB expense of \$23,956. For the fiscal year ended June 30, 2018, the Port reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ -	\$ -
Changes of Assumptions	-	51,281
Net differences between projected and actual earnings on plan investments	-	-
Total	\$ -	\$ 51,281

Port of Redwood City
Notes to Basic Financial Statements
For the years ended June 30, 2019 and 2018

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB), Continued

The 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
2020	\$ (11,983)
2021	(11,983)
2022	(11,983)
2023	(11,983)
2024	(3,160)
Thereafter	(189)
	<u>\$ (51,281)</u>

10. 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.

11. COMMITMENTS AND CONTINGENCIES

As of June 30, 2019 and 2018, the Port had committed approximately \$416,000 and \$2,423,813 respectively for professional services contracts and capital improvement projects.

12. 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
2020	\$ 8,626	\$ 2,000
2021	8,000	2,000
Total minimum future lease payments	<u>\$ 16,626</u>	<u>\$ 4,000</u>

13. 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, 2019, the ratio of Net Revenues to the debt service payments due during Fiscal Year 2019 was 3.39 (339%).

14. 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, 2019, the DSCR was 3.39.

15. 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, 2019, unrestricted cash reserves were 2.73 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, 2019, the Debt Service Coverage Ratio was 3.39 (339%).

REQUIRED SUPPLEMENTARY INFORMATION

**Port of Redwood City
Required Supplementary Information
For the year ended June 30, 2019 and 2018**

1. DEFINED BENEFIT PENSION PLAN

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

Miscellaneous Plan

Measurement Period	2017-18	2016-17	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY					
Service Cost	\$ 185,591	\$ 182,006	\$ 133,198	\$ 114,428	\$ 115,620
Interest	668,448	666,678	558,107	473,041	440,975
Changes of Benefit Terms	-	-	72,632	-	-
Difference Between Expected and Actual Experience	48,082	8,423	-	(13,055)	-
Changes of Assumptions	(74,522)	551,649	-	(114,655)	-
Changes in proportion	-	540,585	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(418,112)	(405,623)	(351,126)	(301,643)	(268,758)
Net Change in Total Pension Liability	409,488	1,543,718	412,811	158,116	287,837
Total Pension Liability - Beginning	8,358,709	6,814,991	6,402,180	6,244,064	5,956,227
Total Pension Liability - Ending (a)	\$ 8,768,197	\$ 8,358,709	\$ 6,814,991	\$ 6,402,180	\$ 6,244,064
PLAN FIDUCIARY NET POSITION					
Contributions - Employer	\$ 277,848	\$ 198,395	\$ 165,636	\$ 158,716	\$ 150,269
Contributions - Employee	82,020	85,018	69,561	56,707	60,404
Net Investment Income (2)	669,196	671,110	27,988	102,554	697,965
Benefit Payments, Including Refunds of Employee Contributions	(418,112)	(405,623)	(351,126)	(301,643)	(268,758)
Net Plan to Plan Resource Movement	-	-	-	-	-
Administrative Expense	(9,884)	-	-	-	-
Other Miscellaneous Income/(Expense) (1)	(18,769)	-	-	-	-
Net Change in Fiduciary Net Position	582,299	548,900	(87,941)	16,334	639,880
Plan Fiduciary Net Position - Beginning (2)	5,081,187	4,532,287	4,620,228	4,603,894	3,964,014
Plan Fiduciary Net Position - Ending (b)	\$ 5,663,486	\$ 5,081,187	\$ 4,532,287	\$ 4,620,228	\$ 4,603,894
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 3,104,711	\$ 3,277,522	\$ 2,282,704	\$ 1,781,952	\$ 1,640,170
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.59%	60.79%	66.50%	72.17%	73.73%
Covered Payroll	\$ 856,970	\$ 754,684	\$ 716,024	\$ 655,667	\$ 636,746
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	362.29%	434.29%	318.80%	271.78%	257.59%

(1) During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No.75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California, agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No.68, Accounting and Financial Reporting for Pensions (GASB 68).

(2) Includes any beginning of year adjustment.

**Port of Redwood City
Required Supplementary Information
For the year ended June 30, 2019 and 2018**

1. DEFINED BENEFIT PENSION PLAN, Continued

B. SCHEDULE OF CONTRIBUTIONS - Last 10 Years (1)

Miscellaneous Plan (1)

	2018-19	2017-18	2016-17	2015-16	2014-15
Actuarially determined contribution (2)	\$ 262,674	\$ 230,354	\$ 198,395	\$ 165,636	\$ 158,716
Contribution in relation to the actuarially determined contributions	(262,674)	(230,354)	(198,395)	(165,636)	(158,716)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 967,648	\$ 856,970	\$ 754,684	\$ 716,024	\$ 655,667
Contributions as a percentage of covered-employee payroll (3)	27.15%	26.88%	26.29%	23.13%	24.21%

(1) As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contribution should also be presented as of employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions toward their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

(3) Includes one year's payroll growth using 2.75 percent payroll assumption for fiscal year ended June 30, 2018; 3.00 percent payroll assumption for fiscal years ended June 30, 2014-17.

Port of Redwood City
Required Supplementary Information
For the year ended June 30, 2019 and 2018

2. OTHER POST EMPLOYMENT BENEFITS (OPEB)

(A Cost-Sharing Multiple Employer Plan)

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

Measurement Period	(1)	2017-18	2016-17
TOTAL OPEB LIABILITY			
Service Cost		\$ 12,746	\$ 14,623
Interest		23,193	20,261
Changes of Benefit Terms		-	-
Difference Between Expected and Actual Experience		-	-
Changes of Assumptions		(5,925)	(68,366)
Benefit Payments		(9,426)	(8,400)
Net Change in Total OPEB Liability		20,588	(41,882)
Total OPEB Liability - Beginning		656,195	698,077
Total OPEB Liability - Ending (a)		\$ 676,783	\$ 656,195
		Covered Payroll	\$ 609,562
		\$ 632,232	\$ 609,562
		107.05%	107.65%
		Total Pension Liability as a Percentage of Covered Payroll	

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

**Port of Redwood City
 Required Supplementary Information
 For the year ended June 30, 2019 and 2018**

2. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued
 (A Cost-Sharing Multiple Employer Plan)

B. Schedule of Contributions - Last 10 Years*

Fiscal Year Ended June 30	2019	2018
Actuarially Determined Contribution (ADC)	\$ -	\$ -
Contributions in relation to the ADC	-	6,300
Contribution deficiency (excess)		6,300
 Covered-employee payroll	 501,790	 632,232
 Contributions as a percentage of covered-employee payroll	 0.0%	 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.

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**INDEPENDENT AUDITOR'S 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 basic financial statements of the Port of Redwood City, California (Port), as of and for the year ended June 30, 2019, and have issued our report thereon dated April 7, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Port'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated April 7, 2020, which is an integral part of our audit and should be read in conjunction with this report.

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 Port'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 Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
April 7, 2020

**PORT OF REDWOOD CITY
MEMORANDUM ON INTERNAL CONTROL
FOR THE YEAR ENDED JUNE 30, 2019**

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**PORT OF REDWOOD CITY
MEMORANDUM ON INTERNAL CONTROL**

For The Year Ended June 30, 2019

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MEMORANDUM ON INTERNAL CONTROL

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

In planning and performing our audit of the basic financial statements of the Port of Redwood City for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Port's internal control over financial reporting (internal control) as a basis for designing 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 Port's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Commission and others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
April 7, 2020

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2019-01: Financial System Access and Segregation of Duties

Condition: In obtaining an understanding of the Port's internal control structure, we noted that certain duties performed by the Finance and Administration Director were not reviewed by another employee. These duties included the following:

- Journal entries preparing and posting
- Bank reconciliation preparation
- Wire transfer initiation

In addition, the current financial system Great Plains (GP) does not allow users and functions access updates.

Criteria: Effective internal controls must be maintained at any organization, no matter what the size and intricacy.

Cause: The above condition was caused by the limited number of staff and turnover in recent years, plus unexpected sick leave of staff in the Finance Department and the limited financial system support.

Potential Effect: This condition does not permit for good checks and balances to maintain reliable internal control.

Recommendation: Good internal control dictates that:

- One employee should not have access to records used to maintain related assets. Another employee should be involved in the recording of assets to ensure good checks and balances.
- A finance staff should have his or her own unique login, and should not have super user access to the financial system.

We recommend that the Port begin implementing review procedures to strengthen internal controls.

Management's Response:

The Port's management concurs with the auditor's recommendation:

- We are in the process of re-assigning financial duties to ensure proper segregation of duties in the fiscal year 2020.
- We are currently implementing a new financial system called "YARDI". The new system is expected to be fully functional by the fiscal year 2021. It is expected to provide enhanced security and user access as recommended by the Auditor.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 - Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2020/21:

GASB 87 – Leases

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

THE PORT OF REDWOOD CITY
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED
JUNE 30, 2019

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THE PORT OF REDWOOD CITY
REQUIRED COMMUNICATIONS
For the Year Ended June 30, 2019

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REQUIRED COMMUNICATIONS

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

We have audited the basic 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 year ended June 30, 2019. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Port are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year.

The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 83 – Certain Asset Retirement Obligations

GASB 88 – Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Port during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate(s) affecting the Port's financial statements were:

- *Estimated Net Pension Liabilities and Pension Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the Port. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- *Estimated Net OPEB Liabilities and OPEB Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net OPEB obligation is disclosed in Note 9 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the Port. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- *Estimated Fair Value of Investments:* As of June 30, 2019, the Port held approximately \$14.9 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2019. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2019.
- *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1D to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- *Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1F to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of commissioners.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated April 7, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Port's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Port's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

This information is intended solely for the use of Commission and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
April 7, 2020