Washington State Auditor's Office

Troy Kelley

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# Financial Statements and Federal Single Audit Report

# Port of Walla Walla

**Walla Walla County**

**For the period January 1, 2013 through December 31, 2013**

**Published September 22, 2014**

**Report No. 1012648**

# Washington State Auditor
# Troy Kelley

September 22, 2014

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

## Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Walla Walla's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Port's financial condition.

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

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## January 1, 2013 through December 31, 2013

# Federal Summary

## Port of Walla Walla
## Walla Walla County
## January 1, 2013 through December 31, 2013

The results of our audit of the Port of Walla Walla are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### *FINANCIAL STATEMENTS*

An unmodified opinion was issued on the basic financial statements.

***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Port.

### *FEDERAL AWARDS*

***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Port’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following was a major program during the period under audit:

| CFDA No. | Program Title |
|---|---|
| 20.106 | Airport Improvement Program |

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Port qualified as a low-risk auditee under OMB Circular A-133.

# 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*

**Port of Walla Walla**
**Walla Walla County**
**January 1, 2013 through December 31, 2013**

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

We have audited, 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, the financial statements of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 16, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the Port implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

## *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 opinion 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 the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## *PURPOSE OF THIS REPORT*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

**TROY KELLEY**
STATE AUDITOR

September 16, 2014

# Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Port of Walla Walla**
**Walla Walla County**
**January 1, 2013 through December 31, 2013**

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

## *REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM*

We have audited the compliance of the Port of Walla Walla, Walla Walla County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The Port's major federal programs are identified in the accompanying Federal Summary.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

## *REPORT ON INTERNAL CONTROL OVER COMPLIANCE*

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## *PURPOSE OF THIS REPORT*

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**TROY KELLEY**
STATE AUDITOR

September 16, 2014

# Independent Auditor's Report on Financial Statements

**Port of Walla Walla**
**Walla Walla County**
**January 1, 2013 through December 31, 2013**

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

## *REPORT ON THE FINANCIAL STATEMENTS*

We have audited the accompanying financial statements of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 14.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Walla Walla, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Matters of Emphasis*

As discussed in Note 1 and Note 9 to the financial statements, in 2013, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 21 and information on postemployment benefits other than pensions on pages 56 through 57 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.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## *OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014 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.

Troy X. Kelley

**TROY KELLEY**
STATE AUDITOR

September 16, 2014

# Financial Section

**Port of Walla Walla**
**Walla Walla County**
**January 1, 2013 through December 31, 2013**

## *REQUIRED SUPPLEMENTARY INFORMATION*

Management's Discussion and Analysis – 2013

## *BASIC FINANCIAL STATEMENTS*

Statement of Net Position – 2013
Statement of Revenues, Expenses and Changes in Fund Net Position – 2013
Statement of Cash Flows – 2013
Statement of Fiduciary Net Position–2013
Notes to Financial Statements – 2013

## *REQUIRED SUPPLEMENTARY INFORMATION*

Other Post Benefits (OPEB) Plan Schedules – 2013
Notes to the Required Supplementary Information (RSI) – 2013

## *SUPPLEMENTARY AND OTHER INFORMATION*

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule Expenditures of Federal Awards – 2013

## Introduction

The following is the Port of Walla Walla's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2013 and 2012. It provides an introduction to the Port's 2013 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business-type activities.

## Overview of the Financial Statements

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statement of net position, the statement of revenues, expenses, and changes in fund net position, and the statement of cash flows.

The statement of net position and the statement of revenues, expenses, and changes in fund net position tell us if the Port as a whole is better or worse off as a result of the year's activities. The statement of net position presents information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statement of revenues, expenses, and changes in fund net position shows how the Port's net assets changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

## Financial Report

### Financial Highlights

The assets of the Port exceeded its liabilities at close of calendar year 2013 by $67,344,780. Of this amount, $57,688,660 was invested in capital assets, net of related debt, $9,550,479 was unrestricted assets, $95,106 was restricted for debt service, and $10,535 was restricted for FAA projects. As a comparison, net position totaled $64,940,412 at the end of calendar year 2012.

**Financial Report (Continued)**

Financial Highlights (Continued)

$53,656,133 was invested in capital assets, net of related debt, $10,699,953 in unrestricted assets, $95,059 restricted for debt service, and $489,267 restricted for FAA projects. For details refer to the statement of net position and note 11 in the notes to the financial statements. The Port's net position increased by $2,385,213 in 2013 compared to a $4,885,055 increase in 2012 figures (as restated).

Financial Position Summary

The statement of net position presents the financial position of the Port at the close of calendar year 2013. The statement includes all Port assets and liabilities. Net position serves as an indicator of the Port's financial position. For details refer to the statement of net position and note 3 and note 11 in the notes to the financial statements. A summarized comparison of the Port's assets, liabilities, and net position at December 31, 2013 and 2012, follows:

Statements of Net Position

| | 2013 | 2012 |
|---|---|---|
| Assets: | | |
| Current Assets | $10,384,218 | $11,694,632 |
| Current Restricted Assets - Cash | $10,535 | $489,267 |
| Current Restricted Assets – Investments | $95,106 | $95,059 |
| Net Capital Assets | $62,559,529 | $59,142,383 |
| Deferred Charges | $0 | $121,771 |
| Total Assets | $73,049,388 | $71,543,112 |
| Deferred Outflows of Resources | $50,282 | $0 |
| Liabilities: | | |
| Current Liabilities | $1,156,383 | $929,269 |
| Noncurrent Liabilities | $4,598,507 | $5,673,431 |
| Total Liabilities | $5,754,890 | $6,602,700 |
| Net Position: | | |
| Invested in Capital Assets, Net of Debt | $57,688,660 | $53,656,133 |
| Restricted for: | | |
| Restricted for Debt Service | $95,106 | $95,059 |
| Restricted for FAA Projects | $10,535 | $489,267 |
| Unrestricted | $9,550,479 | $10,699,953 |
| Total Net Position | $67,344,780 | $64,940,412 |

**Financial Report (Continued)**

Financial Position Summary (Continued)

A summarized comparison of the Port's statements of revenues, expenses, and changes in fund net position for the years ended December 31, 2013 and 2012 were as follows:

Statements of Revenues, Expenses, and Changes in Fund Net Position

| | 2013 | 2012 |
|---|---|---|
| Operating Revenues (Expenses): | | |
| Operating Revenues | $5,004,428 | $4,498,182 |
| Operating Expenses Before Depreciation | ($5,387,528) | ($4,146,047) |
| Depreciation | ($3,031,569) | ($3,043,616) |
| Operating Income (Loss) | ($3,414,669) | ($2,691,481) |
| Nonoperating Revenues (Expenses): | | |
| Ad Valorem Tax Revenues | $1,863,250 | $1,847,287 |
| Interest Expense | ($231,336) | ($207,276) |
| Other, net | $280,504 | $4,278,308 |
| Total Nonoperating Revenues | $1,912,418 | $5,918,319 |
| Excess (Deficiency) Before Contributions | ($1,502,251) | $3,226,838 |
| Capital Contributions | $3,887,464 | $1,658,217 |
| Change in Net Position | $2,385,213 | $4,885,055 |
| Ending Net Position | $67,344,780 | $64,940,412 |

Financial Operation Highlights

As noted earlier, the Port uses only one fund, an enterprise fund to comply with Washington State mandated reporting requirements. The following summary compares the 2013 and 2012 operating results to budget and prior years.

*Revenues* – Year-to-date operating revenues of $5,004,428 were up 11.25% as compared to 2012 revenues of $4,498,182. The Port owns a large water right associated with its Wallula Gap Park Business Park. The Port does not currently need the water right for economic development purposes and has leased the water to the Washington State Department of Ecology for an annual lease payment of $499,905. In 2012 the Port had the income classified as nonoperating revenue. In 2013 the Port decided to reclassify the revenue as operating income. This is the primary reason operating revenues increased in 2013.

## Financial Report (Continued)

### Financial Operation Highlights (Continued)

*Expenses* – Year-to-date operating expenses of $5,387,528 were up 29.94% as compared to 2012 expenses of $4,146,047. In 2013 the Port assisted Walla Walla County in extending a roadway into the Port's Dodd Road Business Park. The Port made a $576,461 contribution. Since it is a County owned road the Port classified the expenditure as an operating expense and not a capital expense. This is the primary reason why operating expenses increased in 2013 as compared to 2012.

*Nonoperating* – Year-to-date nonoperating revenue (expenses) for 2013 was $1,912,418 as compared to $5,918,319 in 2012. The Port did not sell any assets in 2013 and as a result our nonoperating revenues were substantially less in 2013 as compared to 2012.

*Capital Assets* – The Port's investment in capital assets for its business activities as of December 31, 2013, amounted to $62,559,529 (net of accumulated depreciation) which represents a 5.8% increase over 2012. This investment in capital assets includes land, buildings, improvements, machinery, equipment, and construction in progress. Net capital assets at December 31, 2012, totaled $59,142,383, a decrease of 2.7% over 2011. For details refer to note 6 in the notes to the financial statements.

Major capital asset events during 2013 include the following:

- The Port's major capital expenditure in 2013 was purchasing the Martin Archery Property for $1.3 million. This purchase was part of the Port's business retention efforts to save jobs in the Walla Walla Valley. The Port purchased the property and then leased it to a new startup company working to keep bow manufacturing operations and jobs in Walla Walla.

- The Port also spent capital dollars on planning and design efforts associated with a future elevated water storage tower that will serve two Port owned business parks. The capital outlay in 2013 was $351,554. Similar planning and design efforts were initiated for additional rail lines at the Port's Dodd Road Business Park and a sewer transmission system for Port owned property in Burbank. Those capital costs were $368,145 and $444,510 respectfully.

- The major airport capital project in 2013 was an aviation ramp rehabilitation project at a cost of $2,191,350. The old concrete aviation ramp surface was broken up and an asphalt paving surface was laid. The Federal Aviation Administration provided 90% of the project funding.

## Financial Report (Continued)

### Debt Administration

*Long-Term Debt* – At December 31, 2013, the Port's total long-term outstanding debt was $4,872,047 (excluding employee leave benefits). Of this amount, $4,047,726 comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt is secured solely by specified revenue sources. At December 31, 2012, the total long-term debt was $5,486,250 with $4,501,977 being general obligation debt. For details refer to note 10 in the notes to the financial statements.

The Port's bond rating has been stable. In September 1999, Moody's assigned a rating of A3 for a $5.6 million general obligation bond issue for the construction of the new airport terminal building. In April 2005, Moody's assigned a rating of A3 for a $2,260,000 general obligation refunding bond. In June 2007, Moody's assigned a rating of A3 for a $525,000 Limited Tax General Obligation Bond for the Burbank Water System Phase I construction.

On April 23, 2010, Moody's Investor Services applied its new Global Scale Rating of A1 to all of the Port's outstanding Limited Tax General Obligation Bonds. In November 2010, Moody's assigned a rating of A1 for the $1,975,000 general obligation bond issue (refunding 1999 Series B). As listed above the Port previously had all A3 ratings.

## Economic Factors and 2014 Budget

### Economic Factors

The Walla Walla economy continues to be a model of stability. This is due in part to our diverse employment base which encompasses three higher education institutions, a large governmental presence (VA hospital, Army Corps of Engineers district office, and Washington State Penitentiary), regional medical facilities and agriculture. The region continues to receive positive regional and national press for the growing wine industry and revitalization of the downtown area. This has resulted in a strong and growing tourism sector. Commercial air service activity has been a benefactor. In 2013 passenger boarding at the Port owned Walla Walla Regional Airport increased by over 9% as compared to 2012. Hotel/Motel occupancy rates and revenues were also strong in 2013. The above trends remain positive during the first quarter of 2014.

The Port believes 2014 will result in increased economic activity at the Port's Airport Business Park which is home to dozens of small entrepreneurial business. There is strong private sector demand for leasing airport property to construct new buildings where zoning and utilities are in place.

**Economic Factors and 2014 Budget (Continued)**

Economic Factors (Continued)

There also continues to be strong interest in business park properties the Port owns in Western Walla Walla County.

A good source of economic data on the County can be found on the Port-sponsored website: www.wallawallatrends.ewu.edu.

2014 Budget

The Port has a host of major capital projects (expenditures) planned. They include the following:

- The Port is projecting capital expenses of $10.5 million in 2014. Over half of the capital outlay ($5.1 million) will be at the Port's Burbank Industrial and Business Parks. The Port is installing a sewer transmission system and other utilities to support economic development in the Western portion of Walla Walla County.

- The other large capital expenditure in 2014 will be at the Port's Dodd Road Industrial Park. The Port is adding additional rail infrastructure, upgrading its water system, and building a new building for Midlands Carrier a supplier to Railex. The total capital outlay is estimated at $3.1 million.

- The Port has secured a host of economic development grants and one small loan from the State of Washington to help the Port offset a large portion of the costs of the above mentioned projects. Grants and loans total approximately $7.0 million of which only $250,000 is a loan. The Port will receive these funds on a reimbursement basis in fiscal years 2014 and 2015.

The Port is a very dynamic economic development organization and the Port's capital budget priorities can quickly change based on business opportunities that present themselves.

Tax Levy:

The Port's tax levy rate has been declining from $0.44 per $1,000 of assessed value in 2006 to $0.373923 per $1,000 of assessed value in 2013. The tax levy rate for 2014 is projected to decrease slightly to $0.37091 per $1,000 of assessed value and yield $1,878,590. The tax levy is used for debt service, capital expenditures, environmental clean-up and investments that facilitate transportation.

## Economic Factors and 2014 Budget (Continued)

2014 Budget (Continued)

Tax Levy: (Continued)

The Port's statutory maximum tax levy rate is $0.45 per $1,000 of assessed property value. For details, please refer to note 5 in the notes to the financial statements.

## Request for Information

The Port designed this financial report to provide our citizens, customers, investors, and creditors with an overview of the Port's finances. If you have questions or need additional information please visit our website at www.portwallawalla.com or contact James M. Kuntz, Executive Director, jk@portwallawalla.com, or Donna Watts, Auditor/Treasurer, dw@portwallawalla.com, 310 A Street, Walla Walla, Washington 99362-2269, Phone (509) 525-3100, Fax (509) 525-3101.

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**STATEMENT OF NET POSITION**
**DECEMBER 31, 2013**

| | | |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and Cash Equivalents (Note 1 C-1) | $ | 6,535,899 |
| Restricted Cash and Cash Equivalents (Note 1 C-1 & C-6) | $ | 10,535 |
| Investments (Note 4 B) | $ | 2,250,000 |
| Restricted Investments (Note 1 C-6 & Note 4 B) | $ | 95,106 |
| Accounts Receivable (Net) (Note 1 C-3) | $ | 95,960 |
| Taxes Receivable (Note 1 C-3 & Note 5) | $ | 115,148 |
| Accrued Interest Receivable (Note 1 C-3) | $ | 3,607 |
| Due from Other Governments (Note 1 C-4) | $ | 1,155,296 |
| Inventories (Note 1 C-5) | $ | 59,497 |
| Prepayments (Note 1 C-9) | $ | 168,811 |
| Total Current Assets | $ | 10,489,859 |
| Noncurrent Assets | | |
| Capital Assets: (Note 6) | | |
| Capital Assets Not Being Depreciated | | |
| Land | $ | 13,610,881 |
| Construction in Progress | $ | 6,267,708 |
| Capital Assets Being Depreciated | | |
| Improvements to Land | $ | 39,774,700 |
| Buildings | $ | 29,441,236 |
| Equipment | $ | 9,747,605 |
| Less: Accumulated Depreciation | $ | (36,282,601) |
| Total Capital Assets (Net) | $ | 62,559,529 |
| Total Noncurrent Assets | $ | 62,559,529 |
| Total Assets | $ | 73,049,388 |
| **Deferred Outflows of Resources** | | |
| Deferred Loss on Refunding Terminal Bond (Note 1 C-10) | $ | 50,282 |
| Total Deferred Outflows of Resources | $ | 50,282 |
| **Liabilities** | | |
| Current Liabilities | | |
| Accrued Expenses (Note 1 C-13) | $ | 223,121 |
| Compensated Absences (Note 1 C-12) | $ | 72,344 |
| Unearned Revenue (Note 1 C-13) | $ | 10,535 |
| Bonds, Notes, and Loans Payable (Note 10) | $ | 635,891 |
| Accrued Interest Payable (Note 1 C-13) | $ | 28,240 |
| Other Current Liabilities (Note 1 C-13) | $ | 186,252 |
| Total Current Liabilities | $ | 1,156,383 |

The accompanying notes to the financial statement are an integral part of this statement.

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**STATEMENT OF NET POSITION**
**DECEMBER 31, 2013**

| | | |
|---|---|---|
| Noncurrent Liabilities | | |
| Compensated Absences (Note 1 C-12) | $ | 331,474 |
| Bonds, Notes, and Loans Payable (Net) (Note 10) | $ | 4,234,978 |
| Other Post-Employment Benefits (Note 9) | $ | 32,055 |
| Total Noncurrent Liabilities | $ | 4,598,507 |
| Total Liabilities | $ | 5,754,890 |
| **Net Position** | | |
| Net Investments in Capital Assets | $ | 57,688,660 |
| Restricted for: (Note 1 C-6 & Note 11) | | |
| Restricted for Debt Service | $ | 95,106 |
| Restricted for FAA Projects | $ | 10,535 |
| Unrestricted | $ | 9,550,479 |
| Total Net Position | $ | 67,344,780 |

The notes to the financial statements are an integral part of this statement.

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

| | | |
|---|---|---|
| **Operating Revenues** | | |
| Airport Operations | $ | 1,280,424 |
| Marine Terminal Operations | $ | 280,070 |
| Property Lease/Rental Operations | $ | 3,443,934 |
| Total Operating Revenues | $ | 5,004,428 |
| **Operating Expenses** | | |
| General Operations | $ | 2,373,582 |
| Maintenance | $ | 1,291,206 |
| General and Administration | $ | 1,722,740 |
| Depreciation | $ | 3,031,569 |
| Total Operating Expenses | $ | 8,419,097 |
| Operating Income (Loss) | $ | (3,414,669) |
| **Nonoperating Revenues (Expenses)** | | |
| Investment Income | $ | 28,387 |
| Tax Levied for General Purposes | $ | 1,863,250 |
| Gain on Disposal of Assets | $ | 27,501 |
| Interest Expense | $ | (231,336) |
| Election Expense | $ | (22,155) |
| Other Nonoperating Revenues (Expenses) | $ | 246,771 |
| Total Nonoperating Revenues (Expenses) | $ | 1,912,418 |
| Income (Loss) Before Other Revenues, Expenses, Gains, Losses, and Transfers | $ | (1,502,251) |
| Capital Contributions | $ | 3,887,464 |
| Increase (Decrease) in Net Position | $ | 2,385,213 |
| Net Position - Beginning of Period | $ | 64,959,567 |
| Net Position - End of Period | $ | 67,344,780 |

The notes to the financial statements are an integral part of this statement.

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

| | | |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Receipts from Customers | $ | 5,062,846 |
| Payments to Suppliers | $ | (3,948,495) |
| Payments to Employees | $ | (1,367,748) |
| Other Receipts (Payments) | $ | 12,476 |
| Net cash provided (used) by operating activities | $ | (240,921) |
| **Cash Flows From Noncapital Financing Activities** | | |
| Proceeds from Grants | $ | 212,789 |
| Payments of Grants | $ | (24,899) |
| Proceeds from Property Taxes | $ | 1,852,437 |
| Net Cash Provided (Used) by Noncapital Financing Activities | $ | 2,040,327 |
| **Cash Flows From Capital and Related Financing Activities** | | |
| Capital Contributions | $ | 2,757,350 |
| Purchases of Capital Assets | $ | (6,474,012) |
| Proceeds from Capital Assets | $ | 46,631 |
| Principal Paid on Capital Debt | $ | (614,203) |
| Interest Paid on Capital Debt | $ | (183,810) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | $ | (4,468,044) |
| **Cash Flows From Investing Activities** | | |
| Proceeds from Sales and Maturities of Investments | $ | 845,059 |
| Interest and Dividends | $ | 24,791 |
| Purchases of Investments | $ | (3,095,106) |
| Net Cash Provided by Investing Activities | $ | (2,225,256) |
| Net Increase (Decrease) in Cash and Cash Equivalents | $ | (4,893,894) |
| Balances - Beginning of the Year | $ | 11,429,793 |
| Balances - End of the Year | $ | 6,535,899 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | |
| Operating Income (Loss) | $ | (3,414,669) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation Expense | $ | 3,031,569 |
| Changes in Assets and Liabilities: | | |
| Receivables, Net | $ | 2,223 |
| Inventories | $ | 2,304 |
| Accounts and Other Payables | $ | 289,140 |
| Accrued Expenses | $ | (151,488) |
| Net Cash Provided by Operating Activities | $ | (240,921) |

The notes to the financial statements are an integral part of this statement

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**STATEMENT OF FIDUCIARY NET POSITION**
**FIDUCIARY FUNDS**
**DECEMBER 31, 2013**

| | | |
|---|---|---|
| **Assets** | | |
| Cash | $ | 140,113 |
| Total Current Assets | $ | 140,113 |
| **Liabilities** | | |
| Payable to WSDOT | $ | 140,113 |
| Total Liabilities | $ | 140,113 |
| **Net Position** | $ | - |

The notes to the financial statements are an integral part of this statement.

## Note 1 – Summary of Significant Accounting Policies

The Port of Walla Walla, Walla Walla County, Washington, was incorporated in 1952 and operates under the laws of the State of Washington applicable to a Port district. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

### A. Reporting Entity

The Port is a special purpose government and provides a host of economic development activities to the general public and is supported primarily through user charges, rentals of property, property taxes, and grants.

The Port is governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present Port of Walla Walla and its component units. The component unit discussed below is included in the Port's reporting entity because of the significance of their operational or financial relationship with the district.

The Port of Walla Walla Public Corporation is a blended component unit of the Port. The Port of Walla Walla Public Corporation is a special purpose government with limited powers and governed by a Board of Directors, which is comprised of the same members as the Port Commission. This component unit issues tax exempt non-recourse industrial revenue bonds to assist in private economic development projects. The Port of Walla Walla Public Corporation has had no activity for several years and its account balances are not material to the Port's financial statements.

### B. Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting,* and *Reporting System for GAAP Port Districts* in the State of Washington.

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statement of net position (or balance sheets). The reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position.

## Note 1 – Summary of Significant Accounting Policies (Continued)

### B. Basis of Account and Reporting (Continued)

The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The district distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the district are charges to customers for airport operations, marine terminal operations and property lease/rental operations. The district also recognizes as operating revenue water system revenues and wastewater system revenues. Operating expenses for the district include general operation expenses, maintenance expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### C. Assets, Liabilities, and Net Position

#### 1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2013, the Port was holding $6,535,899 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

For purposes of the statement of cash flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

On February 8, 2001, the Port Commission adopted Resolution 02-08-01, designating the Port as its own treasurer effective March 31, 2001. On September 13, 2012, the Port Commission adopted Resolution 09-13-12 designating Donna Watts, CPA, the Port Auditor/Treasurer effective September 14, 2012.

**Note 1 – Summary of Significant Accounting Policies (Continued)**

C. Assets, Liabilities, and Net Position (Continued)

2. Short-Term Investments

   See Note 4, Deposits and Investments.

3. Receivables

   Taxes receivable consist of property taxes and related interest and penalties (see Note 5, Property Tax). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

   Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

   Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for other receivables are $29,025.84.

   The Port's policy for estimating and writing off uncollectible accounts is found in Resolution NO. 01-10-13, section XIV.

4. Amounts Due To and From Other Governments

   These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

5. Inventories

   Inventories are valued by the FIFO method. Inventory items consist of aviation fuel only; all other items such as supplies are expensed when purchased. The amount of unused supplies and similar items on hand at December 31, 2013 is not material.

## Note 1 – Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position (Continued)

6. Restricted Assets

These accounts contain resources for construction and debt service. The restricted assets are composed of the following:

| Restricted Assets | | |
|---|---|---|
| Restricted Investments, Debt Service | $ | 95,106 |
| Restricted Cash and Cash Equivalents, FAA Projects | $ | 10,535 |
| **Total Restricted Assets** | **$** | **105,641** |

7. Capital Assets and Depreciation

See Note 6, Capital Assets.

8. Other Property and Investments

See Note 4, Deposits and Investments.

9. Other Assets and Debits

Prepayments consist of amounts paid in 2013 for 2014 expenses.

10. Deferred Outflows of Resources

The Port implemented GASB 65 in 2013, deferred inflows and outflows of resources. Deferred Outflows of Resources consist of deferred loss on refunding debt.

11. Custodial Accounts

This account reflects the liability for net monetary assets being held by the Port in its trustee or agency capacity.

12. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The district records unpaid leave for compensated absences as an expense and liability when incurred.

## Note 1 – Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position (Continued)

12. Compensated Absences (Continued)

Vacation pay, which may be accumulated up to maximum 8 weeks, is payable upon resignation, retirement, or death. Employees with 5 years of service may cash out one week of vacation when they have reached the maximum accrual (for up to two weeks per year). Sick leave may accumulate up to 1,440 hours. An employee with five years or more of service is eligible for 25 percent cash out of unused sick leave hours upon termination of his/her service with the Port.

13. Other Accrued Liabilities

Accrued expenses consist of accrued accounts payable and payroll expenses at year end. These amounts are expenses incurred, but not yet paid as of 12/31/13. Unearned revenue consists of money received but not yet earned. Accrued interest payable consists of interest on debt accrued to year end, but not yet paid. Other Current liabilities consist of funds held as customer deposits for properties rented out by the district.

14. Long-Term Debt

See Note 10, Long-Term Debt.

## Note 2 – Stewardship, Compliance, and Accountability

There have been no material violations of finance-related legal or contractual provisions.

## Note 3 – Prior Period Adjustments

The Port's ending fuel inventory for 2012 was understated by $25,323. The Port had a copy of the wrong estimated year-end inventory at 12/31/2012. The Port capitalized $6,168 into Construction in Progress 2012 that should have been expensed. The expenses included an Environmental assessment for $230, well alarm monitoring for $155, water meters for $2,699, and expenses related to construction of Railex Road to Raindance Road for $3,084.

## Note 3 – Prior Period Adjustments (Continued)

The prior period adjustment to the below accounts and Net Position is as follows:

| | Balance December 31 2012 | Prior Period Adjustments | | Balance January 1 2013 |
|---|---|---|---|---|
| | | Increases | Decreases | |
| Current Assets : | | | | |
| Inventories | $36,478 | $25,323 | | $61,801 |
| Noncurrent Assets | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Construction in Progress | $3,454,377 | | ($6,168) | $68,413,944 |
| **Net Position** | **$64,940,412** | **$25,323** | **$0** | **$64,965,735** |

## Note 4 – Deposits and Investments

A. Deposits

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. Investments

As of December 31, 2013, the Port had the following investments:

| Investment | Maturities | Fair Value of Port's Investments | Total |
|---|---|---|---|
| Community Bank CD | 5/22/2014 | $95,106 | $95,106 |
| Baker Boyer Bank Investor Services: | | | |
| Discover Bank CD | 6/5/2014 | $250,000 | $250,000 |
| Beal Bank SSB CD | 6/4/2014 | $250,000 | $250,000 |
| Doral Bank CD | 6/5/2014 | $250,000 | $250,000 |
| Fifth Third Bank CD | 3/5/2014 | $250,000 | $250,000 |
| First Bank CD | 6/6/2014 | $250,000 | $250,000 |
| GE Capital Bank CD | 6/6/2014 | $250,000 | $250,000 |
| Mizuho Corp Bank CD | 3/5/2014 | $250,000 | $250,000 |
| Safra National Bank CD | 6/13/2014 | $250,000 | $250,000 |
| Synovus Bank CD | 6/11/2014 | $250,000 | $250,000 |
| **Total** | | **$2,345,106** | **$2,345,106** |

**Note 4 – Deposits and Investments (Continued)**

B. Investments (Continued)

Port investments are managed consistent with the Port investment policy established by the Port Commission per Resolution 02-28-01-A. The foremost objective is safety of principal followed by liquidity. The Port investments are held as "Certificates of Deposit." When they mature or the Port has excess cash to invest, the Port bids the investment among local qualified financial institutions in order to get the best yield possible. The Port follows the same guidelines and rules when investing for other local government investments.

**Note 5 – Property Tax**

The County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

| Property Tax Calendar | |
|---|---|
| January 1 | Tax is levied and become an enforceable lien against properties. |
| February 14 | Tax bills are mailed. |
| April 30 | First of two equal installment payments is due. |
| May 31 | Assessed value of property established for next year's levy at 100 percent market value. |
| October 31 | Second installment is due. |

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services.

The Port's regular levy for 2013 was $0.373923 per $1,000 on an assessed valuation of $4,951,808,150 for a total regular levy of $1,851,595, plus adjustments of $11,655, which comes to $1,863,250.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

## Note 6 – Capital Assets

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost or estimated historical cost, where historical cost is not known/or estimated market value for donated assets. Donations by developers and customers are recorded at the contract price or donor cost or appraised value.

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable amount.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the Port plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of the plant. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.

During 2013, the Port capitalized $0 of net interest costs for funds borrowed to finance the construction of capital assets.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight line method with useful lives of 5 to 40 years.

Capital assets activity for the year ended December 31, 2013 was as follows:

| | Beginning Balance 1/1/2013 | Increases | Decreases | Ending Balance 12/31/2013 |
|---|---|---|---|---|
| Capital Assets, Not Being Depreciated: | | | | |
| Land | $13,420,419 | $208,392 | ($17,930) | $13,610,881 |
| Construction in Progress | $3,448,209 | $4,368,057 | ($1,548,558) | $6,267,708 |
| Total Capital Assets, Not Being Depreciation | $16,868,628 | $4,576,449 | ($1,566,488) | $19,878,589 |

**Note 6 – Capital Assets (Continued)**

Capital assets activity for the year ended December 31, 2013 was as follows: (Continued)

| | Beginning Balance 1/1/2013 | Increases | Decreases | Ending Balance 12/31/2013 |
|---|---|---|---|---|
| Capital Assets, Being Depreciated: | | | | |
| Buildings | $27,273,321 | $2,169,842 | ($1,927) | $29,441,236 |
| Improvements Other Than Buildings | $38,498,419 | $1,328,699 | ($52,418) | $39,774,700 |
| Machinery and Equipment | $9,878,081 | $0 | ($130,476) | $9,747,605 |
| Total Capital Assets Being Depreciated | $75,649,821 | $3,498,541 | ($184,821) | $78,963,541 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | ($11,254,947) | ($921,407) | $727 | ($12,175,627) |
| Improvements Other Than Buildings | ($17,593,925) | ($1,718,113) | $0 | ($19,312,038) |
| Machinery and Equipment | ($4,533,362) | ($401,590) | $140,016 | ($4,794,936) |
| Total Accumulated Depreciation | ($33,382,234) | ($3,041,110) | $140,743 | ($36,282,601) |
| Total Capital Assets Being Depreciated, net | $42,267,587 | $457,431 | ($44,078) | $42,680,940 |

**Note 7 - Construction Commitments**

The Port has active construction projects as of December 31, 2013. The projects include:

- Airfield ramp rehabilitation project.
- Airfield Industrial Park building sprinkler system installation.
- Burbank Business Park construction of sewer transmission line under the Snake River.
- Burbank Business Park construction of a new well relocation for the water system.
- Dodd Rd Business Park construction of a new water system.
- Dodd Rd Business Park construction of rail expansion at Railex.

At year-end the Port's commitments with contractors are as follows:

| Project | Spent to Date | Remaining Commitment |
|---|---|---|
| Airfield Ramp Rehabilitation | $4,070,209 | $353,755 |
| Airport Industrial Park Building Sprinkler System | $43,307 | $5,145 |
| Burbank Business Park Sewer Transmission Line | $356,463 | $1,373,600 |
| Burbank Business Park Well Relocation | $43,335 | $173,665 |
| Dodd Rd Business Park Rail Expansion | $178,633 | $374,594 |
| Dodd Rd Business Park Water System | $0 | $1,238,849 |
| **Total** | **$4,691,947** | **$3,519,608** |

**Note 7 - Construction Commitments (Continued)**

(Of the committed balance of $3,519,608 the Port will provide financing from Cash and Cash Equivalents)

**Note 8 – Pension Plans**

Substantially all Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, and 50, *Pension Disclosures, an Amendment of GASB Statement 25 and 27*.

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of legal governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3.

## Note 8 – Pension Plans (Continued)

### Public Employees' Retirement System (PERS) Plans 1, 2, and 3 (Continued)

Plan Description (Continued)

PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employees contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with a least 30 years of service, at the age of 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

**Note 8 – Pension Plans (Continued)**

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3 (Continued)**

Plan Description (Continued)

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

**Note 8 – Pension Plans (Continued)**

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3 (Continued)**

Plan Description (Continued)

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contributions retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS's fiscal year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

**Note 8 – Pension Plans (Continued)**

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3 (Continued)**

Plan Description (Continued)

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006.

**Note 8 – Pension Plans (Continued)**

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3 (Continued)**

Plan Description (Continued)

Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 82,242 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 30,515 |
| Active Plan Members Vested | 106,317 |
| Active Plan Members Nonvested | 44,273 |
| **Total** | **263,347** |

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

**Note 8 – Pension Plans (Continued)**

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3 (Continued)**

Funding Policy (Continued)

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| Employer * | 9.21% ** | 9.21% ** | 9.21% *** |
| Employee | 6.00% **** | 4.92% **** | ***** |

* The employer rates include the employer administrative expense fee currently set at 0.18%.
**The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plans 2 and 3.
***Plan 3 defined benefit portion only.
****The employee rate for state elected officials is 7.5% for Plan 1 and 4.92% for Plan 2.
*****Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

Both Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| 2013 | - | 73,578 | - |
| 2012 | - | 61,999 | - |
| 2011 | - | 51,142 | - |
| 2010 | - | 43,522 | - |
| 2009 | 23,423 | 51,607 | - |
| 2008 | 4,731 | 51,783 | - |
| 2007 | 3,650 | 25,845 | - |
| 2006 | 1,823 | 16,172 | - |
| 2005 | 1,034 | 5,338 | - |
| 2004 | 704 | 4,202 | - |
| 2003 | 664 | 3,822 | - |
| 2002 | 1,407 | 4,884 | - |

**Note 8 – Pension Plans (Continued)**

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

| Term of Service | Percent of Final Average |
|---|---|
| 20 or more years | 2.0% |
| 10 but less than 20 years | 1.5% |
| 5 but less than 10 years | 1.0% |

**Note 8 – Pension Plans (Continued)**

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)**

Plan Description (Continued)

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at the age of 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53,

## Note 8 – Pension Plans (Continued)

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)**

Plan Description (Continued)

unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

**Note 8 – Pension Plans (Continued)**

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)**

Plan Description (Continued)

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 10,189 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 689 |
| Active Plan Members Vested | 14,273 |
| Active Plan Members Nonvested | 2,633 |
| **Total** | **27,784** |

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal year 2013, the state contributed $54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2013, were as follows:

| | LEOFF Plan 1 | LEOFF Plan 2 |
|---|---|---|
| Employer * | 0.18 % | 5.23% ** |
| Employee | 0.00 % | 8.41% |
| State | N/A | 3.36% |

## Note 8 – Pension Plans (Continued)

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)**

Funding Policy (Continued)

*The employer rates include the employer administrative expense fee currently set at 0.18%.
**The employer rate for ports and universities is 8.59%.

Both Port and the employees made the required contributions. The Port's required contributions for the years ended December 31, were as follows:

| | LEOFF Plan 1 | LEOFF Plan 2 |
|---|---|---|
| 2013 | - | - |
| 2012 | - | - |
| 2011 | - | - |
| 2010 | - | - |
| 2009 | - | - |
| 2008 | - | - |
| 2007 | - | 4,372 |
| 2006 | - | 4,998 |
| 2005 | - | 4,092 |
| 2004 | - | 3,818 |
| 2003 | - | 3,541 |
| 2002 | | 3,157 |

## Note 9 – Other Postemployment Benefit (OPEB) Plans

Plan Description

This year we implemented GASB 45. Other Post-Employment Benefits (OPEB), as defined by Government Accounting Standards Board (GASB), are benefits that are provided to retired employees beyond those provide by their pension plans. Benefits include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. Law Enforcement Officers and Firefighters Retirement Plan (LEOFF 1) employers pay 100 percent of "necessary medical services" for LEOFF 1 retirees. Members first employed prior to October 1, 1977, are in LEOFF Plan 1 and are eligible for employer-provided retiree medical.

**Note 9 – Other Postemployment Benefit (OPEB) Plans (Continued)**

Plan Description (Continued)

The medical benefit, set up under RCW 41.26.150(1), provides free medical and long-term care converge for LEOFF 1 retirees. The last employer of a retired LEOFF 1 member is responsible for the full cost of any post-retirement medical benefits. Individual local disability boards administer the LEOFF 1 medical plan. The disability boards' authority is established under RCW 41.26.150(a)&(b). Each board uses their own discretion regarding which medical serves are fully paid by their LEOFF 1 employers. Insurance allows the LEOFF 1 employers to control the volatility in annual medical service costs.

Funding Policy

The Annual Required Contribution (ARC) is the annual amount required under the selected actuarial cost method and funding polity for amortizing the Unfunded Actuarial Accrued Liability (UAAL). The ARC is the amount of liability that will be earned in the next year, plus a portion of the unpaid liability that has already been earned.

The Annual Required Contribution for the Port in 2013 was $43,280.

Funding for LEOFF retiree healthcare costs is provided entirely by the Port as required by RCW. The Port's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The Annual OPEB Cost is made up of the ARC, the interest on the Net OPEB Obligation (NOO), and the amortization of the NOO. The NOO is the liability for deficient contributions that has accumulated since the ARC was first calculated including interest at the discount rate.

The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB. The Net OPEB obligation of $32,055 is included as a noncurrent liability on the Statement of Net Position.

## Note 9 – Other Postemployment Benefit (OPEB) Plans (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Port's Net OBEB Obligation for 2013 is as follows:

| | Fiscal Year Ending 12/31/2013 |
|---|---|
| Annual OPEB Cost: | |
| Annual Required Contribution | $43,280 |
| Interest on Net OPEB Obligation | - |
| Adjustment to ARC | - |
| Annual OPEB Cost | $43,280 |
| Employer Contributions | $11,225 |
| Change in Net OPEB Obligations (NOO) | $32,055 |
| Net OPEB Obligation - Beginning of Year | - |
| Net OPEB Obligation - Ending of Year | $32,055 |

Annual OBEB Cost, Percentage of Annual OPEB cost contribution, and the net OPEB Obligation

The Port's OBEB cost, the percentage of OPEB cost contribution to the plan, and the net OPEB Obligation for 2013 are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Contribution as a Percentage of OPEB Cost | Net OPEB Obligation |
|---|---|---|---|
| 12/31/2013 | $43,280 | 25.94% | $32,055 |

Funded Status

As of January 1, 2013, the most recent actuarial valuation date, the plan was 0% funded. The Port's funding progress, the accrued liability for benefits, the actuarial value of assets, the unfunded actuarial accrued liability (UAAL), the covered payroll, and the UALL as a percentage of covered payrolls for 2013 are as follows:

## Note 9 – Other Postemployment Benefit (OPEB) Plans (Continued)

Funded Status (Continued)

| Fiscal Year Ended | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL As a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 12/31/2013 | 0% | $481,204 | $481,204 | 0% | 0% | 0% |

Actuarial Methods and Assumptions

Actuarial Methods and assumptions used in valuations on which reported information about the ARC, annual OPEB cost, and the funded status and funding progress OPEB Plans is based on the following:

- Actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

- Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

- Actuarial calculation reflects a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuary accrued liabilities and actuarial value of assets.

- Actuarial methods and significant assumption used to determine ARC for the current year include:

  - The State actuaries used the alternative measurement method permitted under GASB Statement No. 45 used. A single retirement age of 56.24 was assumed for all active members for the purpose to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA).

**Note 9 – Other Postemployment Benefit (OPEB) Plans (Continued)**

Actuarial Methods and Assumptions (Continued)

Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

- Currently, there is no asset valuation method since there are no statewide or Port invested assets in an irremovable, dedicated, and protected trust.

- The economic assumptions are used in actuarial valuation to determine liabilities and contributions in the future. They are broken into non-medical and medical economic assumptions. The non-medical assumptions specify how we expect membership and salaries to grow, and the interest discount rate we used order to discount future cash flows into today's dollars; besides the interest rate these are consistent with the June 30, 2011 Actuarial Valuation Report (AVR) from the State Actuaries Office. The interest discount rate is chosen based on the expected long-term yield of assets expect to finance the payment of benefits. Since we assumed the liabilities are funded on a pay-as-you-go basis, the benefit payments are effectively paid from each LEOFF 1 employer's "checking account". These LEOFF 1 employer accounts are likely invested in short term products such as repurchase agreements, FNMA instruments, and U.S. Treasury obligations. We assumed a long-term yield of 4 percent for this valuation. The medical economic assumptions specify how we expect the benefits to change in the future. The state actuaries relied on health care actuaries at Millman to determine the medical trends in 2012.

- The UAAL and NOO are being amortized as a level dollar amount over a closed 10-year period.

**Note 10 – Long-Term Debt**

The Port issues general obligation and revenue bonds to finance the purchase of land and the acquisition or construction of buildings. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The Port is also liable for notes that were entered into for the purchase of land and buildings.

**Note 10 – Long-Term Debt (Continued)**

These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

General obligation bonds currently outstanding are as follows:

| Purpose | Maturity Range | Interest Rate | Original Amount | Amount of Installment |
|---|---|---|---|---|
| LTGO Ref. Bonds 1999 Series C - Airport Terminal | 2019 | 3% - 4.2% | $2,260,000 | $15,000 |
| LTGO Bonds 2010 Series B -Airport Terminal | 2015 | 2% - 3 % | $1,975,000 | $395,000 |
| LTGO Series A 2007 - Burbank Water System | 2021 | 4.40% | $525,000 | $0 |
| CERB Loan 2005 - Key Technology Building | 2025 | 1.68% | $750,000 | $44,251 |

The annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending December 31 | Principal | Interest |
|---|---|---|
| 2014 | $469,994 | $144,865 |
| 2015 | $480,750 | $131,209 |
| 2016 | $531,519 | $117,241 |
| 2017 | $552,301 | $96,817 |
| 2018 | $578,095 | $75,317 |
| 2019 -2023 | $1,327,871 | $103,071 |
| 2024 - 2027 | $107,196 | $2,709 |

The revenue bonds currently outstanding are as follows:

| Purpose | Maturity Range | Interest Rate | Original Amount | Amount of Installment |
|---|---|---|---|---|
| Revenue Bonds 2005 - Key Technology | 2014 | 3.5 - 5.6% | $1,605,000 | $85,000 |
| Installment Debt - Columbia View Water System | 2014 | 1.5% | $138,834 | $27,767 |
| CERB Loan 2006 - Railex Project | 2026 | 2.0% | $800,000 | $47,186 |

**Note 10 – Long-Term Debt (Continued)**

Revenue bond debt service requirements to maturity are as follows:

| Year Ending December 31 | Principal | Interest |
|---|---|---|
| 2014 | $165,896 | $19,610 |
| 2015 | $49,092 | $13,168 |
| 2016 | $50,074 | $12,187 |
| 2017 | $51,075 | $11,185 |
| 2018 | $52,097 | $10,164 |
| 2019 - 2023 | $276,536 | $34,766 |
| 2024 -2027 | $179,551 | $7,229 |

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discounts.

At December 31, 2013, the Port's restricted assets in proprietary funds contain $95,106 in sinking funds and reserves as required by bond indentures.

**Note 11 – Restricted Component of Net Position**

The government-wide statement of net position reports $105,641 of restricted net position. See Note 1 for a detailed listing.

**Note 12 – Risk Management**

Hugh Wood, Inc. has placed the Port's insurance coverage with a host of underwriters for the policy period September 1, 2013 - August 31, 2014. The Port believes it has adequate insurance coverage in place to protect the Port. Coverage includes:

| | |
|---|---|
| General Liability - Starr Indemnity | $5 Million Limit |
| Excess Liability - Atlantic | $9 Million Limit |
| Property Insurance - Lloyds of London | $5 Million Limit Per Occurrence ($250,000 deductible) |
| Aviation Liability - ACE | $20 Million Limit |

The Port has elected not to insure a host of airport buildings that are old and of nominal value.

## Note 13 – Segment Information

The Port operates its industrial areas and the airport district area as separate enterprises, which are primarily financed by user charges. The financial data for the year ended December 31, 2013, for these facilities are as follows:

| | Port | Airport | Elimination | Total |
|---|---|---|---|---|
| **Condensed Statement of Net Position** | | | | |
| Assets: | | | | |
| Current Assets | $9,216,886 | $1,272,973 | $0 | $10,489,859 |
| Capital Assets | $34,601,151 | $27,958,378 | $0 | $62,559,529 |
| Other Assets | $398,000 | $0 | ($398,000) | $0 |
| Total Assets | $44,216,037 | $29,231,351 | ($398,000) | $73,049,388 |
| Deferred Outflows of Resources | $50,282 | $0 | $0 | $50,282 |
| Liabilities: | | | | |
| Current Liabilities | ($925,183) | ($231,200) | $0 | ($1,156,383) |
| Long-Term Liabilities: | ($4,449,269) | ($547,238) | $398,000 | ($4,598,507) |
| Total Liabilities | ($5,374,452) | ($778,438) | $398,000 | ($5,754,890) |
| Net Position: | | | | |
| Net Investment in Capital Assets | $29,730,282 | $27,958,378 | $0 | $57,688,660 |
| Restricted | $95,106 | $10,535 | $0 | $105,641 |
| Unrestricted | $12,407,592 | ($2,857,113) | $0 | $9,550,479 |
| Total Net Position | $42,232,980 | $25,111,800 | $0 | $67,344,780 |
| **Condensed Statement of Revenues, Expenses, and Changes in Net Position** | | | | |
| Operating Revenues | $2,018,815 | $2,780,179 | $205,434 | $5,004,428 |
| Operating Expenses Before Depreciation | ($2,915,003) | ($2,677,959) | $205,434 | ($5,387,528) |
| Depreciation Expense | ($1,400,103) | ($1,631,466) | $0 | ($3,031,569) |
| Operating Income (Loss) | ($2,296,291) | ($1,529,246) | $410,868 | ($3,414,669) |
| Tax Revenues | $1,863,250 | $0 | $0 | $1,863,250 |
| Nonoperating Revenues (Expenses) | ($40,840) | $90,008 | $0 | $49,168 |
| Capital Contributions | $1,619,098 | $2,268,366 | $0 | $3,887,464 |
| Increase (Decrease) in Net Position | $1,145,217 | $829,128 | $410,868 | $2,385,213 |
| Beginning Net Position | $40,876,911 | $24,082,656 | $0 | $64,959,567 |
| Ending Net Position | $42,022,128 | $24,911,784 | $410,868 | $67,344,780 |
| **Condensed Statement of Cash Flows** | | | | |
| Net Cash Provided (Used) by: | | | | |
| Operating Activates | ($815,081) | $574,160 | $0 | ($240,921) |
| Noncapital Financing Activities | $2,012,727 | $27,600 | $0 | $2,040,327 |
| Capital and Related Financing Activities | ($3,812,260) | ($655,784) | $0 | ($4,468,044) |
| Investing Activities | ($2,234,522) | $9,266 | $0 | ($2,225,256) |
| Total Net Cash Provided (Used) | ($4,849,136) | ($44,758) | | ($4,893,894) |
| Beginning Cash and Cash Equivalents | $10,355,629 | $1,074,164 | $0 | $11,429,793 |
| Ending Cash and Cash Equivalents | $5,506,493 | $1,029,406 | $0 | $6,535,899 |

## Note 14 – Contingencies and Litigations

The Port has recorded in its financial statements all material liabilities, including estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Port will have to make payment. In the opinion of management, the Port's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

As discussed in Note 10, Long-Term Debt, the Port is contingently liable for repayment of refunded debt.

The Port participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The Port's management believes that such disallowances, if any, will be immaterial.

## Note 15 – Other Disclosures

The Port and Washington State own and operate a fleet of 36 railroad grain cars. The Port owns 18 of these cars and they are identified with the railroad markings of PCC 2001-PCC 2017. The State cars are identified with the railroad markings of PCC 1000-PCC 1017. The Port collects grain car shipping fees on both sets of grain cars and deposits revenues in separate accounts. The Port utilizes revenues collected to pay for maintenance expenses on each set of cars. Any excess revenue from the Port cars is deposited into a Port investment account. Any excess revenue generated from the State cars is held in an investment account by the Port. As of December 31, 2013, the Port was holding $140,113 in state grain car funds shown on the statement of fiduciary funds.

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**
**OTHER POST BENEFITS (OPEB) PLAN SCHEDULES**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

## Schedule of Funding Progress

| Year | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | Ratio of UAAL to Annual Covered Payroll |
|---|---|---|---|---|---|---|---|
| 2013 | 5/1/2014 | $0 | $481,204 | $481,204 | 0% | 0% | 0% |

## Schedule of Employer Contributions

| Year | Port Contributions | Change in Net OPEB (NOO) | Annual Required Contribution (ARC) | NOO Percentage of ARC |
|---|---|---|---|---|
| 2013 | $11,225 | $32,055 | $43,280 | 74% |

The accompanying notes to the required supplementary information are an integral part of this statement.

**Note 1 - Factors**

The Port has 2 individuals under their LEOFF program. There will be no more eligible members in the future.

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**SCHEDULE 16**
**SCHEDULE OF EXPENDITRUES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

| 1 | 2 | 3 | 4 | 5 | | | 6 |
|---|---|---|---|---|---|---|---|
| | | | | Expenditures | | | |
| **Federal Agency Name/Pass Through Agency Name** | **Federal Program Name** | **CFDA Number** | **Other I.D. Number** | **From Pass-Through Awards** | **From Direct Awards** | **Total** | **Footnote Ref** |
| Department of Transportation Federal Aviation Administration | Airport Improvement Program | 20.106 | 3-53-0083-28 | $ - | $ 1,645,306 | $ 1,645,306 | 1,2 |
| Department of Transportation Federal Aviation Administration | Airport Improvement Program | 20.106 | 3-53-0083-28 | $ - | $ 479,074 | $ 479,074 | 1,2 |
| Department of Transportation Office of the Secretary (OST) Administration Secretariat | Payments for Small Community Air Service Development | 20.930 | DOT-OST-2012-0069 | $ - | $ 130,996 | $ 130,996 | 1,2 |
| Department of Homeland Security Transportation Security Administration | Law Enforcement Officer Agreement Program | 97.075 | HSTS0213HSLR 755 | $ - | $ 27,360 | $ 27,360 | 1,2 |
| **Total Federal Awards Expended** | | | | **$ -** | **$ 2,282,736** | **$ 2,282,736** | |

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

**PORT OF WALLA WALLA**
**MCAG NO. 1764**
**NOTES TO THE SCHEDULE EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

## Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the Port of Walla Walla's financial statements. The Port of Walla Walla uses a full accrual basis of accounting.

## Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port of Walla Walla's portion, are more than shown. For the Department of Transportation Federal Aviation Administration (FAA) airport improvement program, the Port received $1,727,062 directly from the Department of Transportation in 2013. The Port received the remaining of the funds, totaling $479,074, from the Ports restricted cash and cash equivalents for FAA projects. The restricted cash and cash equivalents was money from the Department of Transportation Federal Aviation Administration not used for a previous airport improvement program.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

| Contact information for the State Auditor's Office | |
|---|---|
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