Washington State Auditor's Office

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Financial Statements Audit Report

Port of Walla Walla

Walla Walla County

For the period January 1, 2014 through December 31, 2014

Published September 30, 2015

Report No. 1015279

Washington State Auditor's Office

September 30, 2015

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

Report on Financial Statements

Please find attached our report on the Port of Walla Walla's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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, 2014 through December 31, 2014

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 proprietary fund and the aggregate remaining fund information of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 25, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of 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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 25, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Walla Walla
Walla Walla County
January 1, 2014 through December 31, 2014

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the proprietary fund and aggregate remaining fund information of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund and aggregate remaining fund information of the Port of Walla Walla, as of December 31, 2014, 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.

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 10 through 16 and information on postemployment benefits other than pensions on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2015 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 25, 2015

FINANCIAL SECTION

Port of Walla Walla
Walla Walla County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Fund Net Position – 2014
Statement of Cash Flows – 2014
Statement of Fiduciary Net Position – 2014
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Benefits (OPEB) Plan Schedules – 2014
Notes to the Required Supplementary Information – 2014

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, 2014 and 2013. It provides an introduction to the Port's 2014 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 2014 by $72,066,260. Of this amount, $62,891,905 was invested in capital assets, net of related debt and $9,174,355 was unrestricted assets. As a comparison, net position totaled $67,277,115 at the end of calendar year 2013. Of this amount, $57,688,660 was invested in capital assets, net of related debt, $9,482,814 in unrestricted assets,

Financial Report (Continued)

Financial Highlights (Continued)

$95,106 restricted for debt service, and $10,535 restricted for FAA projects. For details refer to the statement of net position and note 3 in the notes to the financial statements. The Port's net position increased by $4,789,145 in 2014 compared to a $2,303,457 increase in 2013 figures (as restated).

Financial Position Summary

The statement of net position presents the financial position of the Port at the close of calendar year 2014. 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 in the notes to the financial statements. A summarized comparison of the Port's assets, liabilities, and net position at December 31, 2014 and 2013, follows:

Statements of Net Position

	2014	2013
Current Assets	$10,098,240	$10,316,553
Current Restricted Assets - Cash	$0	$10,535
Current Restricted Assets – Investments	$0	$95,106
Net Capital Assets	$67,372,841	$62,559,529
Total Assets	$77,471,081	$72,981,723
Deferred Outflows of Resources	$36,057	$50,282
Current Liabilities	$1,052,669	$1,156,383
Noncurrent Liabilities	$4,388,209	$4,598,507
Total Liabilities	$5,440,878	$5,754,890
Invested in Capital Assets, Net of Debt	$62,891,905	$57,688,660
Restricted for:		
Restricted for Debt Service	$0	$95,106
Restricted for FAA Projects	$0	$10,535
Unrestricted	$9,174,355	$9,482,814
Total Net Position	$72,066,260	$67,277,115

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, 2014 and 2013 were as follows:

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

	2014	2013
Operating Revenues:		
Airport Operations	$1,326,585	$1,280,424
Marine Terminal Operations	$307,652	$280,070
Property Lease/Rental Operations	$3,549,024	$3,443,934
Total Operating Revenues	$5,183,261	$5,004,428
Operating Expenses:		
General Operations	$2,133,017	$2,373,582
Maintenance	$1,095,591	$1,291,206
General and Administration	$1,695,878	$1,722,740
Depreciation	$3,181,129	$3,031,569
Total Operating Expenses	$8,105,615	$8,419,097
Operating Income (Loss)	($2,922,354)	($3,414,669)
Nonoperating Revenues (Expenses):		
Tax Levied for General Purposes	$1,888,839	$1,863,250
Interest Expense	($174,105)	($231,336)
Other, net	$439,993	$280,504
Total Nonoperating Revenues (Expenses)	$2,154,727	$1,912,418
Income Before Capital Contributions	($767,627)	($1,502,251)
Capital Contributions	$5,556,772	$3,805,708
Change in Net Position	$4,789,145	$2,303,457
Beginning Net Position	$67,277,115	$64,973,658
Ending Net Position	$72,066,260	$67,277,115

Financial Report (Continued)

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 2014 and 2013 operating results to budget and prior years.

Revenues – Year-to-date operating revenues of $5,183,261 were up 3.57% as compared to 2013 revenues of $5,004,428. The increase in revenue can be attributed to the Airport Industrial Park and the Burbank Industrial Park. The Airport Industrial Park has become a popular place for small business to lease reasonable priced production space. The Burbank Industrial Park is used in part as a shipping terminal for grain and in 2014 two grain related business began operations there. Marine terminal operation revenues increased 10% from 2013 to 2014.

Expenses – Year-to-date operating expenses of $4,924,486 were down 8.59% as compared to 2013 expenses of $5,387,528. 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 was a onetime expense and the reason operating expenses were substantially lower in 2014.

Nonoperating – Year-to-date nonoperating revenue (expenses) for 2014 was $2,154,727 as compared to $1,912,418 in 2013. The primary reason nonoperating revenues increased in 2014 was an insurance settlement in the amount of $197,643 related to a flood claim for CAVU Cellars, an airport tenant.

Capital Assets – The Port's investment in capital assets for its business activities as of December 31, 2014, amounted to $67,372,841 (net of accumulated depreciation) which represents a 7.69% increase over 2013. This investment in capital assets includes land, buildings, improvements, machinery, equipment, and construction in progress. Net capital assets at December 31, 2013, totaled $62,559,529, an increase of 5.8% over 2012. For details refer to note 6 in the notes to the financial statements.

Major capital asset events during 2014 include the following:

- The Port continued its muti- year investment plan to bring a sewer system to the Burbank Community including the Port owned Burbank Industrial and Business Parks. In 2014 the Port expended $4.2 million on this project. A state grant is helping offsetting a portion of the capital costs.

Financial Report (Continued)

Financial Operation Highlights (Continued)

Major capital asset events during 2014 include the following: (Continued)

- In 2014 the Port proceeded with phase II improvements to its rail system at the Dodd Road Business Park. This rail improvement has assisted the Railex Company to expand its produce and wine distribution business. The rail expansion project was a $2.1 million dollar investment. The Port was able to secure several state grants to help pay for the project.
- Expanding and improving Port water systems to serve existing customers and future customers continues to be a focus for the Port. In 2014 improvements were made to the Port's Dodd/Wallula water system at a cost of $1.2 million. The Port secured a state grant and local grant to help pay for the project.
- The Port made two strategic investments at its Wallula Gap Industrial Park in 2014. The Port acquired rail access rights to a privately owned rail line served by both UP and BNSF at a cost of $250,000. The Port also acquired 17 acres from Boise White Paper to consolidate the Port's property holdings within the industrial park.

Debt Administration

Long-Term Debt – At December 31, 2014, the Port's total long-term outstanding debt was $4,483,656 (excluding employee leave benefits). Of this amount, $3,577,731 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, 2013, the total long-term debt was $4,872,047 with $4,047,726 being general obligation debt. For details refer to note 10 and note 11 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 2015 Budget

Economic Factors

The Walla Walla economy continues to perform well. Walla Walla County's monthly unemployment rates for the last several years has been among the lowest of the 20 Counties in Eastern Washington. Assessed property values County wide are trending up with a 2.6% increase from 2014 to 2015. Commercial Air Service at the Walla Walla Regional Airport has been very strong. In 2014 passenger enplanements increased by over 9% as compared to 2013. For the first quarter of 2015 enplanements are up 16.4% from the same period last year.

The greater Walla Walla Valley continues to receive positive regional and national press for the growing wine industry and revitalization of the downtown area. This once sleepy college town is becoming a place people want to live and work.

The outlook for Walla Walla is stable and with some modest growth in population. The stability comes from the 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 Port should see positive economic activity at the Airport Business Park, which is home to dozens of small entrepreneurial business. While there are several buildings available for lease, the high occupancy rate will eventually slow the growth at the Airport without the Port building additional production spaces.

The Port also expects to see increased economic activity at its Burbank Industrial Park with the completion of the sewer system. The Port anticipates several lots will be sold for commercial related activities.

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

2015 Budget

The Port's major capital expenditure project will be the completion of the sewer system in Burbank at the estimated cost of $3.3 million. The Airport's major capital outlay will be engineering services related to preparing the design and specifications for rehabilitation of the Airport's primary taxiway. This effort is estimated to cost $600,000.

Economic Factors and 2015 Budget (Continued)

2015 Budget (Continued)

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 $0.37091 per $1,000 of assessed value in 2014. The tax levy rate for 2015 decreased slightly to $0.370184 per $1,000 of assessed value and will yield $1,923,033. The tax levy is used for debt service, capital expenditures, environmental clean-up and investments that facilitate transportation.

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, 2014

Assets		
Current Assets		
Cash and Cash Equivalents (Note 1 C-1)	$	8,691,061
Accounts Receivable (Net) (Note 1 C-3)	$	99,937
Taxes Receivable (Note 1 C-3 & Note 5)	$	127,269
Due from Other Governments (Note 1 C-4)	$	953,629
Inventories (Note 1 C-5)	$	47,327
Prepayments (Note 1 C-9)	$	179,017
Total Current Assets	**$**	**10,098,240**
Noncurrent Assets		
Capital Assets: (Note 6)		
Capital Assets Not Being Depreciated		
Land	$	13,884,521
Construction in Progress	$	8,776,103
Capital Assets Being Depreciated		
Improvements to Land	$	41,622,630
Buildings	$	29,685,794
Equipment	$	12,856,283
Less: Accumulated Depreciation	$	(39,452,490)
Total Capital Assets (Net)	$	67,372,841
Total Noncurrent Assets	**$**	**67,372,841**
Total Assets	**$**	**77,471,081**
Deferred Outflows of Resources		
Deferred Loss on Refunding Terminal Bond (Note 1 C-10)	$	36,057
Total Deferred Outflows of Resources	**$**	**36,057**

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

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF NET POSITION
DECEMBER 31, 2014

Liabilities		
Current Liabilities		
Accrued Expenses (Note 1 C-13)	$	242,866
Compensated Absences (Note 1 C-12)	$	64,815
Bonds, Notes, and Loans Payable (Note 10)	$	529,842
Accrued Interest Payable (Note 1 C-13)	$	25,186
Other Current Liabilities (Note 1 C-13)	$	189,960
Total Current Liabilities	**$**	**1,052,669**
Noncurrent Liabilities		
Compensated Absences (Note 1 C-12)	$	375,809
Bonds, Notes, and Loans Payable (Net) (Note 10 & Note 11)	$	3,951,094
Other Post-Employment Benefits (Note 8)	$	61,306
Total Noncurrent Liabilities	**$**	**4,388,209**
Total Liabilities	**$**	**5,440,878**
Net Position		
Net Investments in Capital Assets (Note 1 B)	$	62,891,905
Unrestricted (Note 1 B)	$	9,174,355
Total Net Position	**$**	**72,066,260**

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, 2014

Operating Revenues		
Airport Operations	$	1,326,585
Marine Terminal Operations	$	307,652
Property Lease/Rental Operations	$	3,549,024
Total Operating Revenues	**$**	**5,183,261**
Operating Expenses		
General Operations	$	2,133,017
Maintenance	$	1,095,591
General and Administration	$	1,695,878
Depreciation	$	3,181,129
Total Operating Expenses	**$**	**8,105,615**
Operating Income (Loss)	**$**	**(2,922,354)**
Nonoperating Revenues (Expenses)		
Investment Income	$	21,596
Tax Levied for General Purposes	$	1,888,839
Gain (Loss) on Disposal of Assets	$	(16,086)
Interest Expense	$	(174,105)
Other Nonoperating Revenues (Expenses)	$	434,483
Total Nonoperating Revenues (Expenses)	**$**	**2,154,727**
Income (Loss) Before Capital Contributions	**$**	**(767,627)**
Capital Contributions	**$**	**5,556,772**
Increase (Decrease) in Net Position	**$**	**4,789,145**
Net Position - Beginning of Period (Note 3)	**$**	**67,277,115**
Net Position - End of Period	**$**	**72,066,260**

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, 2014

Cash Flows From Operating Activities		
Receipts from Customers	$	5,177,547
Payments to Suppliers	$	(3,355,107)
Payments to Employees	$	(1,421,668)
Other Receipts (Payments)	$	252,686
Net cash provided (used) by operating activities	**$**	**653,458**
Cash Flows From Noncapital Financing Activities		
Proceeds from Grants	$	182,457
Payments of Grants	$	(54,500)
Proceeds from Property Taxes	$	1,876,719
Net Cash Provided (Used) by Noncapital Financing Activities	**$**	**2,004,676**
Cash Flows From Capital and Related Financing Activities		
Proceeds from Capital Debt	$	247,500
Capital Contributions	$	5,665,489
Purchases of Capital Assets	$	(8,010,452)
Proceeds from Capital Assets	$	(77)
Principal Paid on Capital Debt	$	(635,891)
Interest Paid on Capital Debt	$	(164,475)
Net Cash Provided (Used) by Capital and Related Financing Activities	**$**	**(2,897,906)**
Cash Flows From Investing Activities		
Proceeds from Sales and Maturities of Investments	$	2,345,106
Interest and Dividends	$	25,202
Net Cash Provided by Investing Activities	**$**	**2,370,308**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**2,130,536**
Balances - Beginning of the Year	**$**	**6,560,525**
Balances - End of the Year	**$**	**8,691,061**

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, 2014

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$	(2,922,354)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	$	3,181,129
Changes in Assets and Liabilities:		
Receivables, Net	$	(3,977)
Inventories	$	12,170
Accounts and Other Payables	$	396,696
Accrued Expenses	$	(10,206)
Net Cash Provided by Operating Activities	**$**	**653,458**

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, 2014

Assets		
Current Assets		
Cash and Cash Equivalents	$	80,223
Investments	$	75,000
Total Current Assets	**$**	**155,223**
Total Assets	**$**	**155,223**
Liabilities		
Current Liabilities		
Payable to WSDOT	$	155,223
Total Current Liabilities	**$**	**155,223**
Total Liabilities	**$**	**155,223**
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. For financial reporting purposes, funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. For financial statement presentation, the Port of Walla Walla's financial statements are blended with the component unit.

Condensed Statement of Net Assets:

	Port of Walla Walla	Walla Walla Public Corp
Current Assets	$10,084,145	$14,095
Net Capital Assets	$67,372,841	$0
Total Assets	$77,456,986	$14,095
Deferred Outflows of Resources	$36,057	$0
Current Liabilities	$1,052,669	$0
Noncurrent Liabilities	$4,388,209	$0
Total Liabilities	$5,440,878	$0

Note 1 – Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Condensed Statement of Net Assets: (Continued)

	Port of Walla Walla	Walla Walla Public Corp
Invested in Capital Assets, Net of Debt	$62,891,905	$0
Unrestricted	$9,160,260	$14,095
Total Net Position	$72,052,165	$14,095

Condensed Statement of Revenues, Expenses, and Changes in Net Assets:

	Port of Walla Walla	Walla Walla Public Corp
Operating Revenues	$5,183,261	$0
Operating Expenses Before Depreciation	($4,924,486)	$0
Depreciation	($3,181,129)	$0
Operating Income (Loss)	($2,922,354)	$0
Ad Valorem Tax Revenues	$1,888,839	$0
Interest Expense	($174,105)	$0
Other, net	$439,990	$3
Total Nonoperating Revenues	$2,154,724	$3
Capital Contributions	$5,556,772	$0
Change in Net Position	$4,789,142	$3
Ending Net Position	$72,052,165	$14,095

Condensed Statement of Cash Flows:

	Port of Walla Walla	Walla Walla Public Corp
Net cash provided (used) by:		
Operating Activities	$653,458	$0
Noncapital financing activities	$2,004,676	$0
Capital and related financing activities	($2,897,906)	$0
Investing activities	$2,370,305	$3
Beginning cash and cash equivalent	$6,546,433	$14,092
Ending cash and cash equivalent	$8,676,966	$14,095

Note 1 – Summary of Significant Accounting Policies (Continued)

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). Their 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. 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, 2014, the Port was holding $8,691,061 in short-term residual investments of surplus cash.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

1. Cash and Cash Equivalents (Continued)

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.

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 $72,218.07.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

3. Receivables (Continued)

   The Port's policy for estimating and writing off uncollectible accounts is found in Resolution NO. 01-09-14, 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, 2014 is not material.

6. Restricted Assets

   These accounts contain resources for construction and debt service. The Port did not have any restricted assets as of December 31, 2014.

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 2014 for 2015 expenses.

10. Deferred Outflows of Resources

    Deferred Outflows of Resources consist of deferred loss on refunding debt.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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. All vacation and sick pay is accrued when incurred in the proprietary fund financial statements. The Port records unpaid leave for compensated absences as an expense and liability when incurred.

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.

12. 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 12/31/14.

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.

13. 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 receivables due from other governments for the 2013 Statement of Net Position was overstated by $81,756. The Port estimated a receivable based on qualifying expenditures but due to the compliance of the grant it should not have been recognized as revenue at that time.

The Port's cash and cash equivalents for the 2013 Statement of Net Position was understated by $14,092. The Port's blended component unit was not included in the Statement of Net Position. The Port recognized the component unit in the notes to the financial statements and noted the component unit had no activity for several years and its account balance were not material to the Port's financial statements.

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

	Balance December 31 2013	Prior Period Adjustments		Balance January 1 2014
		Increases	Decreases	
Current Assets				
Cash and Cash Equivalents	$6,546,433	$14,092	0	$6,560,525
Due from Other Governments	$1,155,296	0	($81,756)	$1,073,540
Net Position	$67,344,780	$14,091	($81,756)	$67,277,115

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

The Port's 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

Note 4 – Deposits and Investments (Continued)

B. Investments (Continued)

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. As of December 31, 2014, the Port had no current 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 2014 was $0.37091 per $1,000 on an assessed valuation of $5,064,812,733 for a total regular levy of $1,878,590, plus adjustments of $10,249, which comes to $1,888,839.

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.

Note 6 – Capital Assets (Continued)

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 2014, 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, 2014 was as follows:

	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital Assets, Not Being Depreciated				
Land	$13,610,881	$273,640	$0	$13,884,521
Construction in Progress	$6,267,708	$3,331,492	($823,096)	$8,776,103
Total Capital Assets, Not Being Depreciation	**$19,878,589**	**$3,605,132**	**($823,096)**	**$22,660,624**
Capital Assets, Being Depreciated				
Buildings	$29,441,236	$244,558	$0	$29,685,794
Improvements Other Than Buildings	$39,774,700	$1,875,180	($27,250)	$41,622,630

Note 6 – Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2014 was as follows: (Continued)

	Beginning Balance 1/1/2014	**Increases**	**Decreases**	**Ending Balance 12/31/2014**
Machinery and Equipment	$9,747,605	$3,108,678	$0	$12,856,283
Total Capital Assets Being Depreciated	$78,963,541	$5,228,416	($27,250)	$84,164,707
Less Accumulated Depreciation For:				
Buildings	($12,175,628)	($982,914)	$0	($13,158,542)
Improvements Other Than Buildings	($19,312,038)	($1,777,901)	$11,241	($21,078,698)
Machinery and Equipment	($4,794,935)	($420,315)	$0	($5,215,250)
Total Accumulated Depreciation	($36,282,601)	($3,181,130)	$11,241	($39,452,490)
Total Capital Assets Being Depreciated, net	**$42,680,940**	**$2,047,286**	**($16,009)**	**$44,712,217**

Note 7 – 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.

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

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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. 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.

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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.

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.

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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.

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.

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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.

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.

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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. 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, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Nonvested	101,191
Total	**368,272**

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

Note 7 – Pension Plans (Continued)

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

Funding Policy (Continued)

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.

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, 2014, 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.

Note 7 – Pension Plans (Continued)

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

Funding Policy (Continued)

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
2014	-	87,659	-
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	-

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.

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

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.

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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, 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

Note 7 – Pension Plans (Continued)

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

Plan Description (Continued)

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.

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	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Active Plan Members Nonvested	1,600
Total	**29,640**

Note 7 – Pension Plans (Continued)

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

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 2014, 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, 2014, were as follows:

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

*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, 2014 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2014	-	-
2013	-	-
2012	-	-
2011	-	-
2010	-	-

Note 8 – Other Postemployment Benefit (OPEB) Plans

Plan Description

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.

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 2014 was $41,469.

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 $61,306 is included as a noncurrent liability on the Statement of Net Position.

Note 8 – Other Postemployment Benefit (OPEB) Plans (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Port's Net OBEB Obligation for 2014 is as follows:

	Fiscal Year Ending 12/31/2014
Annual OPEB Cost:	
Annual Required Contribution	$41,469
Interest on Net OPEB Obligation	$1,282
Adjustment to ARC	($2,883)
Annual OPEB Cost	$39,868
Employer Contributions	$10,617
Change in Net OPEB Obligations (NOO)	$29,251
Net OPEB Obligation - Beginning of Year	$32,055
Net OPEB Obligation - Ending of Year	$61,306

The Port's OBEB cost, the percentage of OPEB cost contribution to the plan, and the net OPEB Obligation for 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	$43,280	25.94%	$32,055
12/31/2014	$39,868	26.63%	$61,306

Funded Status

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0% funded.

Note 8 – Other Postemployment Benefit (OPEB) Plans (Continued)

Funded Status

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 2014 are as follows:

Fiscal Year Ended	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	Ratio of UAAL to Annual Covered Payroll
December 31, 2013	5/1/2014	$0	$481,204	$481,204	0%	0%	0%	0%
December 31, 2014	3/13/2015	$0	$461,067	$461,067	0%	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.

Note 8 – Other Postemployment Benefit (OPEB) Plans (Continued)

Actuarial Methods and Assumptions (Continued)

- 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).
    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 9 - Construction Commitments

The Port has active construction projects as of December 31, 2014. The projects include:

- Airfield ramp rehabilitation project.
- Airfield construction of a fence.
- Terminal construction of a revolving door.
- Burbank Business Park Binding Site plan.
- Burbank Business Park construction of sewer transmission line under the Snake River.
- Burbank Business Park construction of sewer connections in Franklin County.
- Burbank Business Park construction of Columbia School District sewer connections.
- Burbank Business park construction of phase 1 utilities.
- Dodd Rd Business Park construction of a leased building.
- Dodd Rd Business Park property purchase (WSDOT).
- Dodd Rd Water System elevated water tower.

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

Project	Spent to Date	Remaining Commitment
Airfield - Ramp Rehabilitation	$4,085,412	$338,642
Airfield - Fence	$3,127	$141,531
Terminal - Revolving Door	$51,646	$82,055.30
Burbank Business Park - Binding Site Plan	$89,273	$0.00
Burbank Business Park Sewer - Transmission Line	$2,722,135	$405,590
Burbank Business Park Sewer – Pasco Segment	$21,019	$0.00
Burbank Business Park Sewer - School Connections	$727,494	$25,486
Burbank Business Park Sewer/Water - Phase 1	$316,243	$2,172,938
Dodd Rd Business Park - Leased Building	$395,903	$8,973
Dodd Rd Business Park - Property Purchase (WSDOT)	$1,000	$0.00
Dodd Rd Water System - Elevated Tower	$362,850	$0.00
	$8,776,103	**$3,175,216**

(Of the committed balance of $3,175,216 the Port will provide financing from Cash and Cash Equivalents)

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.

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	$410,000
LTGO Series A 2007 - Burbank Water System	2021	4.40%	$525,000	$0
CERB Loan 2005 - Key Technology Building	2025	1.68%	$750,000	$44,995

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

Year Ending December 31	Principal	Interest
2015	$480,750	$131,209
2016	$531,519	$117,241
2017	$552,301	$96,817
2018	$578,095	$75,317
2019	$598,903	$52,249
2020 - 2024	$782,119	$52,622
2025 - 2027	$54,044	$908
Total	**$3,577,731**	**$526,364**

Note 10 – Long-Term Debt

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	$90,000
Installment Debt - Columbia View Water System	2014	1.5%	$138,834	$27,767
CERB Loan 2006 - Railex Project	2026	2.0%	$800,000	$48,129
WSDOT Freight Rail Assistance Loan	2025	1.0%	$247,000	$0

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2015	$49,092	$13,168
2016	$74,824	$12,437
2017	$75,825	$11,435
2018	$76,847	$10,414
2019	$77,889	$9,372
2020 - 2024	$405,816	$30,486
2025 - 2027	$145,632	$3,888
Total	**$905,925**	**$91,200**

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, 2014 the Port's restricted assets in proprietary funds contain $0 in sinking funds and reserves as required by bond indentures.

Note 11 – Changes in Long-Term Liabilities

During the year ended December 31, 2014, the following changes occurred to long-term liabilities:

	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Bonds Payable:					
General Obligation Bonds	$4,047,726	$0	$469,995	$3,577,731	$480,750
Revenue Bonds	$824,321	$247,500	$165,896	$905,925	$49,092
Premiums	$2,229	$0	$2,229	$0	$0
Discounts	($3,407)	$0	($688)	($2,720)	($685)
Total Bonds Payable	$4,870,869	$247,500	$637,432	$4,480,936	$529,157
OPEB Obligations	$32,055	$29,251	$0	$61,306	$0
Compensated Absences	$403,817	$44,395	$7,588	$440,624	$64,815
	$5,306,741	**$321,146**	**$645,020**	**$4,982,866**	**$593,972**

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, 2014 - August 31, 2015, with a preceding period September 1, 2013 – August 31, 2014. The Port believes it has adequate insurance coverage in place to protect the Port. Coverage includes:

Insurance	Limits
General Liability - Starr Indemnity	$5 Million Limit
Excess Liability - Atlantic	$9 Million Limit
Property Insurance - Lloyds of London	$15 Million Limit ($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, 2014, for these facilities are as follows:

	Port	Airport	Elimination	Total
Condensed Statement of Net Position				
Assets:				
Current Assets	$8,504,754	$1,593,486	$0	$10,098,240
Capital Assets	$40,727,474	$26,645,367	$0	$67,372,841
Other Assets	$329,000	$0	($329,000)	$0
Total Assets	$49,561,228	$28,238,853	($329,000)	$77,471,081
Deferred Outflows of Resources	$36,057	$0	$0	$36,057
Liabilities:				
Current Liabilities	($780,899)	($271,770)	$0	($1,052,669)
Long-Term Liabilities:	($4,185,518)	($531,691)	$329,000	($4,388,209)
Total Liabilities	($4,966,417)	($803,461)	$329,000	($5,440,878)
Net Position:				
Net Investment in Capital Assets	$36,246,538	$26,645,367	$0	$62,891,905
Unrestricted	$11,756,930	($2,582,575)	$0	$9,174,355
Total Net Position	$48,003,468	$24,062,792	$0	$72,066,260
Condensed Statement of Revenues, Expenses, and Changes in Net Position				
Operating Revenues	$2,096,654	$2,869,459	$217,148	$5,183,261
Operating Expenses Before Depreciation	($2,427,168)	($2,714,466)	$217,148	($4,924,486)
Depreciation Expense	($1,544,588)	($1,636,541)	$0	($3,181,129)
Operating Income (Loss)	($1,875,102)	($1,481,548)	$434,296	($2,922,354)
Tax Revenues	$1,888,839	$0	$0	$1,888,839
Nonoperating Revenues (Expenses)	$16,894	$248,994	$0	$265,888
Capital Contributions	$5,496,187	$60,585	$0	$5,556,772
Increase (Decrease) in Net Position	$5,526,818	($1,171,969)	$434,296	$4,789,145
Beginning Net Position	$42,247,073	$25,030,042	$0	$67,277,115
Ending Net Position	$47,773,891	$23,858,073	$434,296	$72,066,260
Condensed Statement of Cash Flows				
Net Cash Provided (Used) by:				
Operating Activities	$17,705	$635,753	$0	$653,458
Noncapital Financing Activities	$1,977,796	$26,880	$0	$2,004,676
Capital and Related Financing Activities	($2,624,200)	($273,706)	$0	($2,897,906)
Investing Activities	$2,360,769	$9,539	$0	$2,370,308
Total Net Cash Provided (Used)	$1,732,070	$398,466	$0	$2,130,536
Beginning Cash and Cash Equivalents	$5,520,583	$1,039,942	$0	$6,560,525
Ending Cash and Cash Equivalents	$7,252,653	$1,438,408	$0	$8,691,061

Note 14 – Contingencies and Litigations

The Port has recorded in its financial statements all material liabilities, including an 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, 2014, the Port was holding $155,223 in state grain car funds shown on the statement of fiduciary funds.

Schedule of Funding Progress

Fiscal Year Ended	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
December 31, 2013	5/1/2014	$0	$481,204	$481,204	0%	0%	0%
December 31, 2014	3/13/2015	$0	$461,067	$461,067	0%	0%	0%

Schedule of Employer Contributions

Fiscal Year Ended	Port Contributions	Net OPEB Obligation (NOO)	Change in Net OPEB Obligation (NOO)	Annual Required Contribution (ARC)	NOO Percentage of ARC
December 31, 2013	$11,225	$32,055	$32,055	$43,280	74%
December 31, 2014	$10,617	$61,306	$29,251	$41,469	71%

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.

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.

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