Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Everett

Snohomish County

For the period January 1, 2016 through December 31, 2016

Published July 20, 2017

Report No. 1019410

Office of the Washington State Auditor
Pat McCarthy

July 20, 2017

Board of Commissioners
Port of Everett
Everett, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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

Port of Everett
Snohomish County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Everett
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated June 19, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Everett
Snohomish County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Everett
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Everett, as of December 31, 2016, and the changes in financial position 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 pension plan information on pages 35 through 36 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 June 19, 2017 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.

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2017

FINANCIAL SECTION

Port of Everett
Snohomish County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Port of Everett

Management's Discussion and Analysis

for year ended December 31, 2016

The Port of Everett's (the Port) management discussion and analysis provides an overview of the Port's financial activities for the fiscal year ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on the financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements and notes to the financial statements, which immediately follow this discussion.

The Port is a Special Purpose Municipal Government. The Port was created in 1918 by a vote of the citizens of the Port district. The district encompasses most of the City of Everett, about one-half of the City of Mukilteo, and portions of unincorporated Snohomish County, Washington. The Port's primary mission is economic development for the citizens of the district.

Three elected Commissioners serve as the governing body of the Port. In accordance with the laws of Washington, the Commissioners have appointed an Executive Director to manage Port operations, and a Port Auditor to manage the Port's finances. Currently the Chief Financial Officer serves as the appointed Port Auditor.

Operating revenues are generated from three primary business areas consisting of marine terminals, marina operations and Real Estate property management. The Port recorded $29.9 million in operating revenues in 2016. This was a substantial decline from that recorded in 2015. With the decline in revenues, came a cooresponding reduction of Operating Expenses which totaled $33.6 million for the year.

The largest revenue division of the Port is the Marine Terminals division. Cargo shipping through the terminals accounted for 62% of the Port's operating revenue. The Marine Terminals recorded $18.4 million in Revenue, this was a significant decline from revenues of $32 million recorded in 2015. The revenue decline came primarily from the sharp decline in oil and gas prices and the decision by international oil producers to discontinue drilling activities in the Alaskan arctic. Other factors affecting Marine Terminal revenues included a strong US dollar, and international sanctions placed on cargos to Russia. Despite the decline in revenues this division did record an Operating Income of $1.3 million after depreciation.

The Port owns and operates four marine terminals which provide inter-modal cargo facilities for a number of steamship lines and shippers. Hewitt Terminal has two piers, a wharf, a 36,000 square foot chill warehouse and 21 acres of upland area. This terminal is dredged to minus 40 feet mean low low water (MLLW). The Port also operates the South Terminal wharf which features a 705-foot wharf, a 22,000 square foot warehouse with rail sidings, 13 acres of lighted upland acres, and is dredged to minus 40 feet MLLW. The South Terminal also has a dolphin berth, with a 900-foot usable length and dredged to minus 40 feet MLLW. The Pacific Terminal is operated by the Port as the Port's container and general cargo yard. The usable berth length is 640 feet and it is dredged to minus 40 feet MLLW. Two 40-ton container gantry cranes and two Gottwald mobile harbor cranes with lifting capacity in excess of 100 tons each, as well as a full array of cargo loading equipment, are available to service the Port's customers. The Mount Baker Terminal is a satellite terminal designed to transport oversized aerospace parts to Paine Field via rail. Initially, the aerospace parts arrive in the Port of Everett's shipping terminals on Port Gardner Bay. They are then barged to the Mount Baker Terminal where they are off-loaded by an electric rail-mounted gantry crane and transported by rail car to Paine Field Airport. The Port also manages extensive on-dock rail and warehouse facilities with direct connectivity to the mainline of the Burlington Northern Sante Fe railroad.

The Port provides the local boating community with modern small boat marina facilities. The Port's second division, the marina division accounted for 34% of the Port's total operating revenues in 2016. The Marina continued to see growth in occupancy during 2016 and recorded record revenues of $10.1 million. The Port marina facilities consist of two in-water marinas with over 2,300 wet moorage slips. The Port also provides upland storage for approximately 150 vessels. The Marina provides an array of marine services including operations of a fuel dock, wash down facility, vessel haul outs, boat yard facilities, restroom and shower complexes and parking facilities. The Port also partner's in the Port of Everett marine park boat launch with the City of Everett and Snohomish County. This facility is available for public use in launching trailerable boats into Puget Sound. The Marina division generated an Operating income of $185 thousand.

The Port's third operating division is the Property division which serves as landlord and developer of Port owned commercial and industrial properties. The Port owns a total of about 3,000 acres of land including approximately 900 acres that have been or will be developed. Some of the sites may require cleanup of contaminated soils and often will require new or upgraded primary infrastructure. The Port is moving forward with a number of capital projects which will provide new or upgraded road and utility infrastructure to its land holdings. The improved industrial and commercial sites are either leased or sold to industrial, commercial or retail users who develop site specific facilities. The Port also constructs and owns buildings and leases those buildings to tenants. A wide array of businesses operate within the Port's real property holdings, ranging from light industrial to retail trade to restaurants and hospitality businesses. All of the Port's land holdings are adjacent to or near the waterfront surrounding the Port district. The Property division accounted for 4% of the Port's 2016 operating revenues. The Port continues to invest heavily in the expansion of its Real Estate and as a result saw a divisional operating loss $1.4 million for the year.

Public ports, such as the Port of Everett, are municipal special purpose governments. Ports do their accounting and financial reporting for their activities very much like a private business. They collect revenues from services performed for customers and pay for expenses related to those services. Port authorities in Washington state have also been given legislative authority to collect property tax revenues from property owners within the Port district. These tax revenues go to support the public amenities provided by the Port and to provide financing for capital investments made by the Port. The Port collected $4.7 million in property taxes, these taxes specifically were used to reimburse for costs associated with cleanup of legacy environmental pollution and for public amenities throughout the Port district. Tax revenues can be pledged to pay for General Obligation debt incurred to construct facilities that are used to support Port functions. Property taxes collected are recorded as non-operating revenues of the Port. Other non-operating revenue sources include grant revenues (typically from State or Federal agencies) as well as investment income. In addition to environmental remediation costs, Non-Operating Expenses include costs to operate public amenities as well as interest expense on Port debt. Net non-operating revenues in 2016 totaled $10 million

After 100 years of marine industrial use much of the Port's waterfront land and adjacent waterways have been in need of various degrees of environmental clean-up and remediation. Over the past several years, the Port has been aggressively pursuing clean-up remedies for its property holdings. The Port has developed significant expertise in managing these efforts and has been very successful in obtaining grant contributions and other payments to help offset these expenditures. Once remediation has occurred the Port strives to return these properties to the marketplace, facilitating expansion of area jobs and taxes. Each year an assessment on the potential liability of the Port regarding the remediation costs to which the Port is likely to be held liable is made. This assessment, as per guidance provided in GASB #49, is used as part of the analysis to determine the appropriate level of estimated liability to be recorded on the Port's financial statements.

Financial Highlights

- In 2016, the Port experienced revenues totaling $29.9 million, declining by 32% over that recorded in 2015.
- The Port's overall operating costs also decreased significantly in 2016, totaling $33.6 million, a decline of 22%, from 2015 operating expense levels.
- The Port had an overall net operating loss of $3.7 million in 2016 which was a decline of $4.1 million from that recorded in 2015.
- The Port's recorded a net non-operating income in 2016 of $10.0 million which was significantly higher than the non-operating loss of $4.7 million recorded in the prior year. The swing in non-operating results included a reduction in the recorded environmental remediation liability in the amount of $4.9 million.
- Net Income before capital contributions totaled $6.2 million for the fiscal year.
- The Port's had capital contributions of $162 thousand. The Port experienced an overall increase in net position of $6.4 million.
- The Port's assets and deferred outflows grew by $18 million to total $321 million at yearend and exceeded its liabilities by $221.9 million (net position) as of December 31, 2016.

Using the Annual Report

Government accounting falls under the control of the Government Accounting Standards Board (GASB). The Port uses the "one proprietary fund" model in compliance with the rules of GASB Statement No. 34. Since the Port is comprised of a single enterprise fund, no fund level financial statements are shown. The financial statements provide a broad view of the Port's operations in a manner similar to a private-sector business. The financial statements take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

The *Statement of Net Position* presents all of the Port's assets, deferred outflows, and liabilities, with net position shown as the remainder after subtracting liabilities from the sum of assets and deferred outflows. Over time, increases or decreases in the Port's net position may serve as a useful indicator of whether the financial position of the Port is improving or declining.

The *Statement of Revenues, Expenses, and Changes in Fund Net Position* presents information showing how the Port's net position changed during the year. Revenues net of expenses, when combined with other non-operating items such as investment income, tax receipts, accrued environmental expenses, and interest expense, results in a net increase or decrease in the Port's net position for the year.

The *Statement of Cash Flows* reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. A reconciliation of the cash provided by operating activities to the Port's operating income as reflected on the statement of revenues, expenses and changes in net position is also included.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

Financial Analysis – Net Position

Net Position

	2016	2015
Current Assets (net of restricted assets)	38,871,335	32,908,112
Restricted Assets	4,889,523	1,725,578
Capital Assets	271,012,534	261,783,709
Other Noncurrent Assets	4,391,371	5,449,823
Total Assets	**319,164,763**	**301,867,222**
Total Deferred Outflows of Resources	**2,128,080**	**1,250,536**
Current Liabilities	11,315,018	15,714,080
Noncurrent Liabilities	87,964,308	70,898,626
Total Liabilities	**99,279,326**	**86,612,706**
Deferred Inflows-Pension	**144,198**	**1,013,848**
Net Investment in Capital Assets	202,095,277	211,330,495
Restricted for Capital Projects	4,889,523	1,725,578
Unrestricted	14,884,519	2,435,131
Total Net Position	**221,869,319**	**215,491,204**

Assets

The Port maintained strong cash/investment reserves during 2016 with a total of $39.4 million in cash and investments. Of this total, $34.5 million was available and unrestricted.

The Port also had accounts receivables of $3.0 million which was a decrease of 17% from that recorded at 12/31/2015. Other current assets including taxes and interest receivable, amounts due from other governments, inventory and prepaid items totaled $1.3 million.

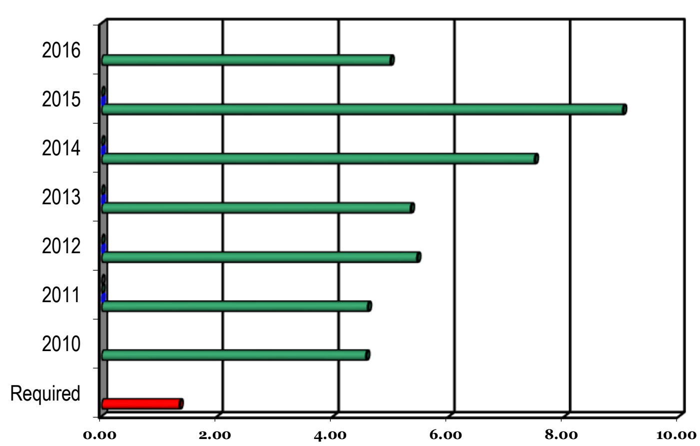
After accounting for addition and deletions from capital assets and depreciation during the year, the Port's net depreciable capital assets decreased by $1.2 million (see note 4, table B.). Construction in progress increased during 2016 by $18.3 million. The Port's total net position increased during 2016 to a total of $221.9 million at yearend.

Liabilities

Total Liabilities increased by $12.7 million from fiscal year 2015, with total liabilities at yearend of $99.3 million. During 2016, the Port issued $27.2 million of Series 2016 revenue bonds. The bonds were issued with a 30 year amortization and had an "All-In" True Interest Cost of 3.05% These bond proceeds were used to refund $10.0 million of Series 2007 Revenue Bonds and to pay for and to reimburse the Port for waterfront development costs previously incurred. Total long-term liabilities outstanding at yearend were $92.6 million which is $11.9 million more than that outstanding at 12/31/2015. Of this total $4.6 million is due within one year. Long term liabilities at yearend include $13.9 million estimated for addressing legacy environmental costs at various port locations as well as a net pension liability of $8.1 million. See Note 9 for additional information.

In 2016, the Port maintained a strong revenue bond debt service coverage ratio of 4.99 times debt service. Port bond contracts require the Port to maintain a minimum debt service coverage ratio of 1.35 times debt service.

Revenue Bond- Debt Service Coverage ratios (Cash flow available for revenue bond debt service)



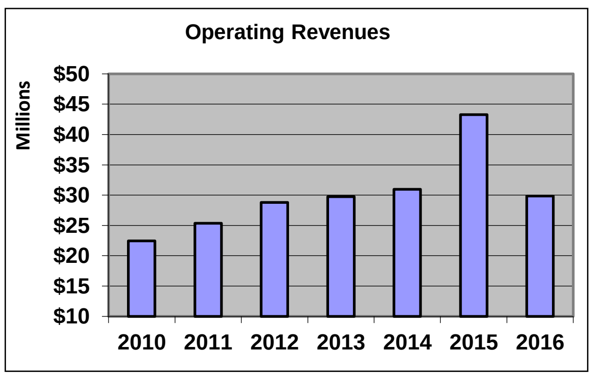
The Port Commission has adopted a comprehensive set of Financial Guidelines which set guidance for staff in managing the Port's finances. The guidelines are available on the Port's website. The Financial Guidelines set a benchmark of maintaining cashflow sufficient to achieve a revenue bond debt service coverage ratio of at least a 2.0 times debt service. Approved debt resolutions require a legal minimum of 1.35 times debt service.

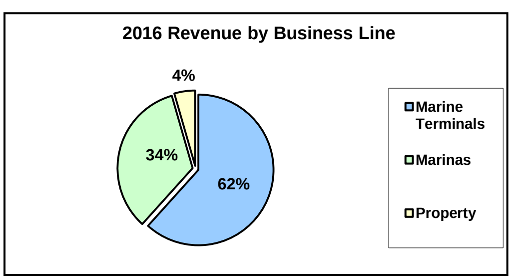
Financial Analysis - Revenues, Expenses and Changes in Net Position

Summary of Revenues, Expenses and Change in Net Position

	2016	2015
Total Operating Revenues	$29,870,330	$43,266,378
Non-operating Revenues	12,875,278	7,589,322
Total Revenues	**42,745,608**	**50,855,700**
Operating Expenses	33,624,432	42,947,918
Non-operating Expenses	2,904,925	12,280,648
Total Expenses	**36,529,357**	**55,228,566**
Excess before Contributions and Adjustments	**6,216,251**	**(4,372,866)**
Capital Contributions	161,863	2,873,530
Increase / (decrease) in Net Position	**$6,378,114**	**$(1,499,336)**
Change in Accounting Principle		(6,523,049)
Change in Net Position	**$6,378,114**	**$(8,022,385)**

The *Statement of Revenues, Expenses and Changes in Net Position* provides insight as to the nature and source of the Port's revenues and expenses. Operating revenues decreased $13.4 million (31%) from 2015. The Port experienced a significant decline in revenues from its largest division Marine Terminals. Although utilization of the terminal by aerospace, wood products and agricultural shippers continued at a steady pace, declining oil prices and a halt to Alaskan arctic drilling resulting in almost a total withdrawal of much of the oil and gas business resulting in a divisional 42% revenue decline year over year. Both the Marina and Properties divisions saw modest revenue increases during 2016. Due to lower activity at the Marine Terminals, total divisional operations and maintenance expenses (before depreciation) decreased by $10.1 million (32%) from the previous year. Administrative costs decreased by 4.8% from 2015.





Marine terminal operations recorded revenues of $18.4 million from that recorded in 2015. The Port's cargo facilities recorded 142 vessel calls during the year compared to the previous year's record number 195 vessel calls. Overall tonnage shipped through the terminals was 257 thousand short tons of cargo. The Port incurred operating costs within this division of $12.9 million.

Marina operations revenues increased by $71 thousand to total $10.1 million. Expenses decreased $198 thousand (3%) from 2015. Moorage occupancy increased slightly to about 82% overall occupancy. We saw continued increases in travelift operations and upland boat storage. The division was able to increase its operating income before depreciation to almost $3.2 million.

Property management revenues increased to $1.4 million, a 3% increase. The division had a significant increase in operating expenses of $590 thousand. All of this increase can be attributed to accounting as an operating expense the remaining net book balance of assets which were disposed of during the year due to the significant redevelopment that is occurring at Waterfront Place.

Contacting the Port's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact John Carter, Chief Financial Officer, at 1205 Craftsman Way, Everett, WA 98201 or by phone at (425) 259-3164.

PORT OF EVERETT

STATEMENT OF NET POSITION
December 31, 2016

ASSETS	
Current Assets	
Cash and cash equivalents (Note 1)	$5,655,887
Investments (Note 2)	28,856,942
Restricted assets (Note 1)	
Cash and cash equivalents (Note 1)	4,889,523
Taxes receivable (Note 3)	52,423
Accounts receivable (net of allowance for uncollectible)	3,039,868
Interest receivable	67,394
Due from other governments	608,475
Inventory	214,002
Prepaids	376,344
Total Current Assets	**43,760,858**
Noncurrent Assets	
Notes Receivable	4,236,529
Capital assets not being depreciated (Note 4)	
Land	59,478,279
Construction in Progress	28,506,315
Capital assets being depreciated (Note 4)	
Property, Plant and Equipment	
Buildings	192,106,095
Improvements other than building	65,915,714
Machinery and equipment	30,277,327
Intangible assets	7,462,397
Less: Accumulated Depreciation	(112,733,593)
Other noncurrent assets	154,842
Total Noncurrent Assets	**275,403,905**
Total Assets	**$319,164,763**
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charge on Advance Refunding (Note 9)	529,268
Deferred Outflows - Pension (Note 6)	1,598,812
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$2,128,080**

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

PORT OF EVERETT

STATEMENT OF NET POSITION
December 31, 2016

LIABILITIES	
Current Liabilities:	
Checks payable	$420,373
Accounts payable	5,853,696
Accrued taxes payable	40,715
Accrued interest payable	188,653
Current portion of notes payable and capital leases (Note 9)	905,217
Current portion of long-term obligations (Note 9)	2,545,000
Current portion of Environmental Remediation Liabilities (Note 13)	1,196,444
Other current liabilities	164,920
Total Current Liabilities	**11,315,018**
Noncurrent Liabilities:	
General obligation bonds, net (Note 9)	16,683,524
Revenue bonds, net (Note 9)	39,301,432
Notes payable and Capital Leases (Note 9)	10,011,353
Employee leave benefits	1,113,275
Net Pension Liability (Note 6)	8,133,924
Environmental Remediation Liability (Note 13)	12,720,800
Total Noncurrent Liabilities	**87,964,308**
Total Liabilities	**$99,279,326**
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows - Pension (Note 6)	144,198
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$144,198**
NET POSITION:	
Net investment in capital assets	202,095,277
Restricted for capital projects	4,889,523
Unrestricted	14,884,519
TOTAL NET POSITION	**$221,869,319**

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

PORT OF EVERETT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2016

OPERATING REVENUES:	
Marina operations	$10,096,688
Marine terminal operations	18,434,074
Property lease/rental operations	1,339,568
Total Operating Revenues	**29,870,330**
OPERATING EXPENSES:	
General operations	16,789,074
Maintenance	4,707,849
General and administrative	3,586,193
Depreciation (Note 4)	8,541,316
Total Operating Expenses	**33,624,432**
Operating Income (Loss)	**(3,754,102)**
NONOPERATING REVENUES (EXPENSES):	
Environmental grant revenues	2,764,763
Investment income	548,077
Net increase/decrease in fair value of investments	(5,149)
Taxes levied	4,682,657
Public access	(427,016)
Public access depreciation (Note 4)	(254,806)
Interest expense	(1,668,115)
Bond Issue Expense	(241,272)
Change in environmental remediation liability	4,879,781
Gain or (loss) on disposal of assets	(305,065)
Other nonoperating expenses, net	(3,502)
Total Nonoperating Revenues (Expenses)	**9,970,353**
Income (loss) before other revenues, expenses, gains, losses and transfers	**6,216,251**
Capital contributions	161,864
Increase (decrease) in net position	**6,378,115**
Net position - January 1	**215,491,204**
Net Position - end of period	**$221,869,319**

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

PORT OF EVERETT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	
Marina	$10,252,260
Marine Terminals	$19,140,011
Property Lease / Rental	$1,327,168
Payments to suppliers	($11,227,110)
Payments to employees	($13,067,001)
Net cash provided by operating activities	**6,425,328**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	4,685,908
Miscellaneous taxes received	63,780
Non-operating receipts	3,822,378
Non-operating expenses	(4,528,399)
Net cash provided by noncapital financing activities	**4,043,667**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases or construction of capital assets	(18,213,563)
Proceeds from sale of bonds	31,238,715
Proceeds from new debt	1,905,000
Principal paid on notes	(708,851)
Principal paid on capital debt	(13,350,000)
Interest paid on capital debt	(2,069,125)
Bond issue expense	(241,272)
Change in environmental remediation liability	161,863
Other receipts (payments)	(168,500)
Net cash used by capital and related financing activities	**(1,445,733)**
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	(10,572,764)
Interest and dividends	554,217
Net cash used by Investing Activities	**(10,018,547)**
Net increase in cash and cash equivalents	**(995,285)**
Balances - beginning of the year	**11,540,695**
Balances - end of the year	**$10,545,410**
Reconciliation of Operating Income(Loss) to Net Cash Provided by Operating Activities	
Operating Income(Loss)	($3,754,102)
Adjustments to reconcile net operating Income to net cash provided by operating activities:	
Depreciation	$8,541,316
Change in assets and liabilities	
Decrease in accounts receivable	$806,708
Increase in inventory	($48,631)
Decrease in prepayments	($23,822)
Increase in customer deposits	$42,399
Increase in accounts payable	$806,747
Decrease in checks payable	($64,022)
Decrease in taxes accrued	($8,578)
Increase in employee benefits payable	$127,313
Net cash provided by operating activities	**$6,425,328**

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

Port *of* Everett

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Everett (the Port) was incorporated in 1918 and operates under the laws of the state of Washington applicable to a public port district, as a municipal corporation under the provisions of Chapter 53 RCW. The Port is centrally located on Puget Sound at Port Gardner Bay about 125 miles inland from the Pacific Ocean. The Port district boundaries have been set by voter approval with the port district boundaries encompassing most of Everett, WA, a portion of Mukilteo, WA and a portion of unincorporated Snohomish County. Washington Port districts are empowered through authority delegated to the districts through the Washington State legislature. Ports have been given powers of eminent domain and the levying of ad volorem property taxes upon real and personal property within the district. Property taxes are currently levied as imposed by the governing board of the Port during the approval of the annual budget.

The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Port is a special purpose government, independent of Snohomish County and City of Everett government, and provides marine terminal, marina, and property lease/rental operations to the general public. It is supported primarily through user charges.

The Port is governed by a three member Board of Commissioners, elected by Port district voters. As policy makers, they delegate certain administrative authority to the Executive Director to conduct operations of the Port. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the Port's reporting entity because of the significance of its operational or financial relationship with the Port.

The Industrial Development Corporation of the Port of Everett, a public corporation, is authorized to facilitate the issuance of tax-exempt nonrecourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they were issued. The Port's Board of Commissioners governs the Industrial Development Corporation. The Industrial Development Corporation's account balances and transactions are included as a blended unit within the Port's financial statements. The Industrial Development Corporation had no operational activity during 2016 except for earned income on its cash balances.

The Ports financial resources are provided by marine terminal facilities, which handle forest products, cement, aircraft parts, and various other break bulk and bulk commodities; a marina providing moorage for 2,300 pleasure and fishing vessels; and property lease/rentals providing more than 30 property leases.

B. Basis of Accounting and Presentation

The accounting records of the Port of Everett are maintained in accordance with methods prescribed by the Washington State Auditor under authority of Chapter 3.09 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 measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position. 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 the operating, non-capital 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 Port distinguishes between operating revenues and expenses from non-operating 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 facility use charges to customers for marine terminals and the marina, as well as industrial and commercial property leases. Operating expenses are expenses for the benefit of customers and include the cost of labor, administrative expenses and depreciation on capital assets. All revenues and expenses not related to providing services to customers are reported as non-operating revenues and expenses. Included in the non-operating expenses are expenses related to providing the general public access to Port property. This access includes maintaining public access and open spaces and paying the Port's obligations for navigation dredging, as well as other expenses related to open space and public access.

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, 2016, Short-term residual investments of surplus cash were $10,543,285.37 of which $ 4,889,523.06 was restricted for specific uses. This amount (along with petty cash in the amount of $2,125) is classified on the statement of net position as cash and cash equivalents. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average month end balances maintained during 2016 were $11,127,013.91.

2. Investments

The Port Commission has adopted an Investment Policy which provides guidance and policy direction for all investments of Port funds. This document combined with state statutes which dictate authorized investments serves as the template for the investment of all Port funds. All investments of the Port's funds are obligations of the US government, agencies of the US government, general obligations of state and municipal governments, deposits in the Washington State Treasurer's local government investment pool or are collateralized deposits with Washington state banks and savings and loan institutions. As of December 31, 2016 investments totaled $28,856,941.60.

The Port has funds at banking institutions where all deposits are entirely covered by federal deposit insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All bank deposits are valued at book value, which is equivalent to fair value for these investments. (See Note 2).

The Washington State Local Government Investment Pool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The fair value of the portfolio is calculated by the master custodian or by an independent pricing service under contract with the State Treasurer's Office. The fair value of the Port's position in the Washington State Local Government Investment Pool is the same as the value of the pool shares. The Port also has purchased investments in various government backed bonds. These investments are held in a safe keeping arrangement with the Bank of New York Mellon. The portfolio of bond investments is recorded at the Fair Market Value as determined by independent market pricing as of 12/31/2016. Investments are classified as current assets on the accompanying financial statements. They are available for use in operations if needed and are not committed to be held to maturity. Changes in fair value of investments are recognized on the Statement of revenues, expenses and changes in fund net position.

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consists of amounts due from individuals or organizations for services provided. Receivables have been recorded net of estimated uncollectible amounts. Because property taxes are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for other receivables are $30,000

4. Amounts Due To and From Other Governments

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

5. Restricted Assets

In accordance with bond resolutions and certain agreements, separate restricted accounts are required to be established. These accounts contain resources for construction and funds for specified uses.

	12/31/2016
Cash and Investments - Port of Everett Industrial Development Corp.	$27,806
Investments – North Marina Redevelopment Interpretive Program	255,543
Investments - City of Everett Riverside Industrial Park Construction Permit	125,000
Investments – Fisherman's Tribute Statue	6,887
Investments- Proceeds from 2016 Revenue Bond issuance	3,341,310
Investments-Revenue Bond Debt Service Reserve	1,132,977
Total as of December 31, 2016	**$4,889,523**

6. Capital Assets and Depreciation

Capital assets are acquisitions of significant value (greater than $5,000) and having a useful life extending beyond one year. These are recorded at cost. Capital assets acquired with contributed funds are also capitalized (See Note 4).

7. Intangible Assets

As part of the sale of property to the Department of Defense for the Navy Homeport, the Port was required to assist in mitigation of traffic impacts. As part of the mitigation effort in 1996 the Port contributed to the construction of the Alverson Street Bridge. The Port has no ownership interest in this bridge. This asset will be amortized over a 50 year life. As mitigation in the Marina, in 2001 the Port agreed to pay a percentage of the costs of upgrades to a sewer lift station, owned and operated by the City of Everett. The Port has no ownership interest in this station. This asset will be amortized over a 40 year life.

8. Employee Leave Benefits

Employee leave benefits are accrued leave payable to employees of the Port. Vacation pay, which may be accumulated up to 3 years of an employee's annual accrual, is payable upon resignation, retirement or death. Sick leave may accumulate up to 180 days. Upon separation without cause, employees are paid for accumulated sick leave at 50% of their final balance but not more than 90 days (50% of 180 days). The Port accrues vacation and sick leave benefits as earned. At December 31, 2016 the recorded liability for unpaid vacation and sick leave was $1,113,275.

9. Deferred Outflows/Inflows of Resources

The port reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s).

In 2016, the Port recognized a deferred outflow of resources related to an advance refunding of the Port's 2007 revenue bonds. The deferred outflow related to this refunding was in the amount of $321,945 and will be recognized as a component of interest over the remaining life of the refunded debts.

The port also reports a separate section for deferred inflow of resources. This represents an acquisition of net assets by the government that is applicable to future reporting period(s).

10. Net Position

Net Position is divided into three categories. The majority of the Port's Net Position is invested in capital assets, and is not available to pay the Port's obligations. Some of the assets are restricted due to conditions placed on construction permits issued to the Port. These conditions require the Port to perform certain actions and are mandated by the permit issuing authority. The remaining Net Position is Unrestricted and available for the repayment of the ordinary obligations of the Port.

11. Pensions

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The Port's bank deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The FDIC provides protection of Port deposits up to $250,000 with all amounts in excess of $250,000 collateralized through the PDPC pool. The Port also maintains deposits in the Local Government Investment Pool (LGIP) managed by the Washington State Treasurer. The LGIP operates in a manner consistent with the SEC Rule 2a-7.

The Port conducts its general banking through accounts established at its primary banks, MUFG Union Bank N. A and U.S. Bank.. All bank deposits as well as deposits in the LGIP are considered to be cash equivalents and are reported at cost.

Investments

Investments, stated at fair value, are based on quoted market prices in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in the fair-value of investment is recognized as an increase or decrease to the investment assets and investment income. As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of state and local government, or certificates of deposit with PDPC qualified banks and savings and loan institutions.

All investments are purchased directly from financial institutions or through broker relationships. Investments purchased through brokers are deposited into a "safekeeping" account in the Port's name administered by Bank of New York Mellon.

The Port invests its surplus cash according to an Investment Policy formally adopted by the Commission. The Port's policy is that investment principal be at minimal risk, while seeking a return on investment and following a schedule of maturities that meets cash demands.

Investments Measured at Amortized Cost

As of December 31, 2016, the port held the following investments at amortized cost:

Type of Investment	Maturities	Port's own investments	Investments held by Port as an agent for others	Total
Local Government Investment Pool *	Less than 1 year	$ 2,223,174	$ -	$ 2,223,174
Money Market Funds	Less than 1 year	5,009,761	-	5,009,761
Total		$ 7,232,935	$ -	$ 7,232,935

* Investments in the Local Government Investment Pool approximates fair value.

Investments Measured at Fair Value

The port measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

On December 31, 2016, the port had the following investments measured at fair value:

Investments by Fair Value Level	Total	Quoted prices in active markets for identical assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Agency	18,427,729	-	18,427,729	-
U.S. Treasury	1,998,990	-	1,998,990	-
Municipal Bonds	7,430,223	-	7,430,223	-
Settlement Account	1,000,000	1,000,000		-
Total	$ 28,856,942	$ 1,000,000	$ 27,856,942	$ -

Interest rate risk

To minimize risk of loss arising from interest rate fluctuations, and to provide for liquidity, the Port purchases investments with a laddered approach to maturities. The Port targets a weighted average maturity (modified duration) not to exceed 3 years. At year-end the portfolio had a modified duration of 1.52 years.

Credit risk

The Port's investment policy states that safety of principal is the foremost objective. To obtain this objective the Port employs a diversification approach to management of the investment portfolio. Furthermore the Port restricts its investments to securities that are rated AA or higher as rated by recognized rating agencies. The Washington State Local Investment Pool is an unrated 2a-7 like pool, as defined by the Government Accounting Standards Board. At yearend the investment portfolio held the following categories of issuers:

Federal National Mortgage Association	24.8%
Federal Home Loan Banks	26.2%
United States Treasury Notes	5.5%
Municipal Bonds	20.6%
Collaterialized Money Market Accounts	13.9%
Washington Local Government Investment Pool	6.2%
Bank of NW Mellon Settlement Account	2.8%

Custodial Risk

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities. The Port conducts all investment transaction on a delivery-verses-payment (DVP) basis with all securities purchased through broker relationships and delivered to Bank of New York Mellon who serves as the Port's third party custodian.

NOTE 3 - PROPERTY TAXES

The County Treasurer acts as agent to collect property taxes levied in the county for all taxing authorities. The County Treasurer distributes collections after the end of each month to the Port.

Property Tax Calendar

January-01	Taxes are 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% of market value.
October-31	Second installment is due.

Property taxes are recorded as a receivable when levied. During the year, property tax revenues are recognized in the month when the County Treasurer collects cash. No allowance for uncollectible taxes 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 $.45 per $1,000 of assessed valuation for general government services. The rate is limited by the Washington State Constitution and Washington State law, RCW 84.55.010. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2016 was $.316 per $1,000 on an assessed valuation of $14.85 billion for a total regular levy of $4,689,945.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

A. Major expenditures for capital assets and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost.

The Port has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the terms of the agreements involved, the 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 account.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives using the straight-line method. Buildings and improvements are assigned lives of 20 to 50 years and equipment 5 to 25 years.

B. **Capital asset activity for the year ended December 31, 2016 was as follows:**

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Capital assets, not being depreciated:				
Land	$59,478,159	$120	$0	$59,478,279
Construction in Progress	18,064,109	18,333,978	7,891,772	28,506,315
Total capital assets, not being depreciated	**77,542,268**	**18,334,098**	**7,891,772**	**87,984,594**
Capital assets, being depreciated:				
Buildings	192,146,027	428,008	467,940	192,106,095
Improvements other than Buildings	60,268,549	5,647,165	0	65,915,714
Machinery and equipment	29,500,231	1,816,599	1,039,503	30,277,327
Intangible Assets	7,462,397	0	0	7,462,397
Total capital assets, being depreciated	**289,377,204**	**7,891,772**	**1,507,443**	**295,761,533**
Less accumulated depreciation for:				
Buildings	74,748,710	4,883,797	409,353	79,223,154
Improvements other than Buildings	19,619,922	2,146,195	0	21,766,117
Machinery and equipment	8,115,150	1,598,478	788,939	8,924,689
Intangible Assets	2,651,981	167,652	0	2,819,633
Total accumulated depreciation	**105,135,763**	**8,796,122**	**1,198,292**	**112,733,593**
Total capital assets, being depreciated, net	**$184,241,441**	**($904,350)**	**$309,151**	**$183,027,940**

NOTE 5 - CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2016. At year-end the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Marina I Dock, Bulkhead Segment C	$4,988,958	$239,393
Fisherman's Harbor Upland Infrastructure	825,002	7,115,833
On Call Civil Construction Services 2014	277,384	13,310
Jetty Island Access Pier Removal	42,476	2,038
Marina Storm Damage Repair	265,273	13,647
Storm Damage Repairs - Marina Upland	54,582	2,619
Emergency Repairs - Conference Center Roof	0	57,568
Weyerhaeuser Building Relocation	1,067,263	89,574
Pier 3 Pile Repairs	203,821	415,343
Seiner Wharf Seg D & Pac Rim Plaza	1,280,236	3,130,850
Marina Guide Pile & Fender Pile Replace	0	102,637
Marine Terminal Fender Pile Replace	0	164,597
On Call Civil Construction Services 2016	0	280,000
Terminal Rail Phase 1	2,749,883	131,952
Interim Action - Mill A Dredging	3,042,631	2,040,028
S. Terminal Stormwater Pumpstations	284,972	7,814
Bioswale Stormwater Runoff Bypass	171,292	7,876
N. Marina Lift Station Repairs	0	106,219
Box Car Park Improvements	0	103,232
Bellingham Yachts TI	0	3,706
Marine Terminals & Marina Pavement	265,273	12,729
Emergency Repairs Sinkhole E4	64,734	3,106
Total:	$15,583,780	$14,044,073

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	($8,133,924)
Pension assets	$-
Deferred outflows of resources	$1,598,810
Deferred inflows of resources	($144,198)
Pension expense/expenditures	$961,606

State Sponsored Pension Plans

Substantially all Port of Everett'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 state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

The Port of Everett's actual PERS plan contributions were $422,497 to PERS Plan 1 and $533,872 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the port's proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$4,541,210	$3,765,828	$3,098,564
PERS 2/3	$8,042,450	$4,368,096	($2,273,846)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the port reported a total pension liability of $8,133,924 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$3,765,828
PERS 2/3	$4,368,096

At June 30, the port's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.068656%	0.070121%	0.001465%
PERS 2/3	0.085692%	0.086756%	0.001064%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the port recognized pension expense as follows:

	Pension Expense
PERS 1	$280,833
PERS 2/3	$680,773

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	94,818	0
Changes of assumptions		0
Changes in proportion and differences between contributions and proportionate share of contributions	0	0
Contributions subsequent to the measurement date	224,696	0
TOTAL	$319,514	$0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$232,598	($144,198)
Net difference between projected and actual investment earnings on pension plan investments	534,529	
Changes of assumptions	45,148	
Changes in proportion and differences between contributions and proportionate share of contributions	183,023	
Contributions subsequent to the measurement date	283,999	
TOTAL	$1,279,296	($144,198)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$232,598	($144,198)
Net difference between projected and actual investment earnings on pension plan investments	629,346	0
Changes of assumptions	45,148	0
Changes in proportion and differences between contributions and proportionate share of contributions	183,023	0
Contributions subsequent to the measurement date	508,695	0
TOTAL	$1,598,810	($144,198)

Deferred outflows of resources related to pensions resulting from the port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	(23,346)
2018	(23,346)
2019	87,080
2020	54,430
2021	
Thereafter	
Total	94,818

Year ended December 31:	PERS 2/3
2017	75,780
2018	75,780
2019	444,107
2020	255,433
2021	
Thereafter	
Total	851,100

NOTE 7 - CONTINGENCIES AND LITIGATION

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 are adequate to pay all known or pending claims.

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

NOTE 8 –LEASES

A. Operating Leases

The Port leases equipment under various operating leases. Total cost for such leases was $72,353 for the year ended December 31, 2016. The future minimum lease payments for noncancelable operating leases are as follows:

Year Ended	Amount
2017	$60,235.56
2018	57,812.16
2019	57,812.16
2020	32,748.52
Total	$208,608.40

The Port leases a portion of industrial and marine terminal land to tenants under operating leases. Minimum future rentals for noncancelable leases are as follows:

Year Ending Dec. 31	Amount
2017	$1,304,994
2018	1,283,312
2019	843,498
2020	572,018
2021	473,903
2022-2026	2,055,922
2027-2031	1,025,325
2032-2036	750,136
2037-2041	684,760
2042-2046	548,161
2047-2051	270,000
2052-2056	270,000
Total	$10,082,029

B. Capital Leases

During 2014, The Port executed a Master Lease Agreement with Bank of America National Association for the lease purchase of equipment in an amount not to exceed $11,800,000. This lease agreement is subordinate to other Port debt and payment is secured by the operating revenues of the Port. As of December 31, 2016, the Port has drawn $7,669,074 of this capacity ($6,283,434 of which remains outstanding). These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the inception date. Through December 31, 2016, Depreciation in the amount of $431,562 has been recognized.

The assets acquired through capital leases are as follows:

Boat Transporter	365,984
Gottwald Mobile Harbor Crane	5,029,778
Hyster Pneumatic Tire Reach Stacker	1,782,780
Hyster Forklift	115,007
2016 Hyster Forklifts	375,525
Less Accumulated Depreciation	(431,562)
Total	$7,237,512

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2016 were as follows:

Year ending December 31,	Business-type Activities
2017	893,524
2018	893,524
2019	893,524
2020	893,524
2021	893,524
2021-2024	2,426,255
Total Minimum Lease Payments	6,893,875
Less: Interest	(610,440)
Present Value of Min. Lease Payments	$6,283,435

NOTE 9 – LONG-TERM DEBT

A. Long-Term Debt

The Port issues general obligation and revenue bonds to finance acquisition, purchase or construction of various projects. Bonded indebtedness has also been entered into 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 installation of a natural gas district regulator and for the purpose of expanding rail capacity. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

During 2016, the Port issued $27,710,000 in Revenue and Refunding Bonds. These bonds were issued to prepay $10,020,000 of the Port's 2007 Revenue Bonds maturing 2017 through 2026 and to provide various capital improvements to port facilities.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2016 Principal Payment	Balance Outstanding at 12/31/2016
2013 Limited Tax General Obligation Bonds- Refunding of outstanding debt.	2032	2%-5%	$19,540,000	$1,060,000	$16,035,000

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

Year Ending 12/31/16	Principal	Interest
2017	$1,090,000	$656,400
2018	1,135,000	612,800
2019	1,170,000	574,875
2020	1,220,000	528,075
2021	1,250,000	497,575
2022-2026	4,845,000	1,766,375
2027-2031	4,335,000	872,113
2032-2036	990,000	49,500
	$16,035,000	$5,557,713

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2016 Principal Payment	Balance Outstanding at 12/31/2016
2007 Series - Various capital improvements to port facilities	2026	4.125%	$16,225,000	$10,810,000	$5,000
2015 Series – Various capital improvements to port facilities	2035	2.0% - 4.0%	$9,205,000	$255,000	$8,950,000
2016 Series – Various capital improvements to port facilities and refund certain outstanding revenue bonds of the Port.	2046	2.0% - 5.0%	$27,710,000	$100,000	$27,610,000

The annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending 12/31/16	Principal	Interest
2017	$1,455,000	$1,443,156
2018	1,485,000	1,414,056
2019	1,525,000	1,372,956
2020	1,580,000	1,327,206
2021	1,635,000	1,264,006
2022-2026	9,235,000	5,269,481
2027-2031	5,270,000	3,570,850
2032-2036	5,750,000	2,422,500
2037-2041	3,910,000	1,538,950
2042-2046	4,720,000	731,250
	$36,565,000	$20,354,413

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset and bonds are 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 discount.

Funds are transferred to the fiscal agent for redemption of principal and interest payments.

Limitation of indebtedness is provided for in Chapter 39.36 RCW with unvoted General Obligation Bond debt limited to .25% of the assessed value of the taxable property in the Port district.

At December 31, 2016, the port had $9,164,234 available for debt service to service the general bonded debt. These funds are shown as restricted assets in the Statement of Net Position. These funds are sufficient to meet sinking fund and bond reserves as required by bond indentures.

B. Refunded Debt

The port issued $9,065,000 of revenue refunding bonds to provide resources to purchase State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on $10,020,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by $1,143,123.28 and resulted in an economic gain of $998,492.66.

At December 31, 2016, the Port district's assessed value and limitation of unvoted General Obligation debt are as follows:

Total assessed value	$16,093,355,425
.25% limitation of indebtedness	$40,233,388
Unvoted GO Bonds issued and outstanding	$16,035,000
Unvoted GO Bond margin	$24,198,388

Revenue Debt Service Coverage						
Year	Operating Revenues	Operating Expenses (1)	Nonoperating Income (2)	Available for Debt Service	Revenue Debt Service	Debt Service Coverage (3)
2012	28,798,396	21,265,975	2,650,836	10,183,256	1,870,049	5.45
2013	29,757,454	23,250,502	3,181,778	9,688,730	1,813,299	5.34
2014	30,961,225	24,978,133	3,352,783	9,335,875	1,247,550	7.48
2015	43,266,378	35,388,047	4,078,974	11,957,305	1,326,328	9.02
2016	29,870,330	25,083,116	4,377,020	9,164,234	1,834,772	4.99

(1) Excludes Amortization/Depreciation
(2) Excludes taxes used to pay GO debt service, interest expense, public access depreciation, capital contributions, and non-cash expenses.
(3) The current bond coverage ratio requirement is 1.35

C. Changes in Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 12/31/2015	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Bonds payable:					
G. O. Bonds	$ 18,220,000		(2,185,000)	$ 16,035,000	$ 1,090,000
Revenue Bonds	20,020,000	27,710,000	(11,165,000)	36,565,000	1,455,000
Premiums – Revenue Bonds	837,855	3,528,715	(175,138)	4,191,432	
Premiums – G.O. Bonds	1,912,531		(174,007)	1,738,524	
Total Bonds Payable	40,990,386	31,238,715	(13,699,145)	58,529,956	2,545,000
Notes Payable	3,099,253	1,905,000	(371,118)	4,633,135	150,072
Capital Leases	6,621,168	375,525	(713,259)	6,283,434	755,145
Compensated Absences	991,196	2,060,310	(1,938,231)	1,113,275	
Net Pension Liability	6,653,171	8,133,946	(6,653,171)	8,133,946	
Environmental Remediation	22,330,800		(8,413,556)	13,917,244	1,196,444
Total Long-Term Liabilities	$ 80,685,974	$ 43,713,496	$(31,788,480)	$ 92,610,990	$ 4,646,661

NOTE 10 - RISK MANAGEMENT

The Port maintains commercial insurance coverage against most normal hazards except for unemployment insurance where it has elected to become self-insured.

The Port participates in an insurance buying group which is brokered through a contract with Alliant Insurance Services, Inc. The policy has been tailored for the risk management needs of public port authorities. General liability coverage is in effect to a limit of $1 million per occurrence ($3 million general aggregate) with a $25,000 deductible. Excess liability coverage is in effect with a limit of $50 million over the first $1 million of loss.

Commercial property replacement cost coverage with a total insured value of $317.2 million with a deductible of $50,000 is in effect. In addition, the Port maintains standard business automobile, construction, and boiler and machinery coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Port provides medical, vision, dental, life, and long-term disability insurance coverage for Port employees through standard plans. The Port does not administer any of these plans.

NOTE 11 – BUSINESS LINE INFORMATION

The Port operates shipping marine terminals, a marina, and leases industrial property, which are primarily financed by user charges. Current Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflow of Resources, Net Position, and Cash Flow are accounted for on a Port-wide basis and are not identifiable to a particular business line. Information on operating results from each business line for the year ended December 31, 2016 is presented below.

	Marine Terminals	Marina	Properties	Total
Operating Revenue	$18,434,074	$10,096,688	$1,339,568	$29,870,330
Operating Expense	12,874,060	6,897,496	1,823,044	21,594,600
Depreciation	4,284,728	3,014,333	931,205	8,230,266
Income from Operations	1,275,286	184,859	(1,414,681)	45,464
Administrative Expense				3,799,566
Net Operating Income (Loss)				($3,754,102)

NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 13 – POLLUTION REMEDIATION OBLIGATIONS

In November 2006, the Government Accounting Standards Board issued GASB No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses accounting and financial reporting standards for pollution and contamination remediation obligations. These obligations address current or potential future detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007. The Port adopted this standard in 2008.

The Port has identified a number of contaminated sites on various port properties that must be investigated for the presence of hazardous substances and remediated in compliance with Federal and State environmental laws and regulations. Although the Port may not bear ultimate liability for the contamination, the Port is presumptively liable as the property owner.

The Port's estimate of its pollution remediation obligations is analyzed by independent environmental consultants annually (using the expected cash flow technique) and has been estimated at $25,445,400 on December 31, 2016. In some cases, the Port has successfully recovered Port-incurred investigation and cleanup costs from other responsible parties. The Port will continue to seek appropriate recoveries in the future. As of December 31, 2016, unrealized recoveries were estimated at $11,528,156. The Port liability will change over time due to changes in cost estimates, changes in technology, and changes in governing laws and regulations. In 2016, the Port recognized a decrease in the accrued liability in the amount of $4,879,781. During the fiscal year 2016, the Port has recorded recoveries in the amount of $1,237,374, and expended $4,771,149 in cleanup activities.

In 2016 the Port recognized non-operating grant revenues in support of its cleanup program from the Department of Ecology Model Toxics Control Act (MTCA) in the amount of $2,764,763.

The East Waterway is a listed site on the Washington State Department of Ecology's Hazardous Sites List. The Site was listed by Ecology for sediment contamination caused by historical industrial activities in the area. In April, 2013, The Port was named a Potentially Liable Party (PLP) under the Model Toxics Control Act (MTCA) for the East Waterway based on the Port's historical ownership and operations in the East Waterway. On Feb 16, 2016 the Port entered into a MTCA order for a remedial investigation & feasibility study of the sediment contamination in the East Waterway. It is uncertain at this time what the Port's remediation obligations may be.

An additional site (The Exxon/Mobil Bulk Storage Plan) has been identified for further testing and will require cleanup, however it is expected that the other potentially responsible parties will be responsible for the complete cost of remediation and the Port's participation will not be significant.

NOTE 14 – ACCOUNTING AND REPORTING CHANGES

In February 2015, the Governmental Accounting Standards Board issued GASB No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. The Port adopted this guidance in the current year. The adoption of this guidance did not have an impact on the net position and changes in the net position.

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The statement establishes standards for state and local government employer recognition, measurement and presentation of information about postemployment benefits other than pensions (OPEB). The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. While the port has not offered postemployment benefits, it is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

NOTE 15 – UNIQUE AND UNUSUAL TRANSACTIONS

A. Subsequent Event

Following citizen concerns to the announced port's Seaport Modernization project, the Port Commission directed legal counsel to negotiate a settlement agreement with selected homeowners affected by the project. The Port has negotiated an agreement that includes a comprehensive operating agreement for the marine terminal as well as an "easement" document that acknowledges the Port's right to operate the facility within its intended purposes. The document does call for a payment to the property owners as an inducement to sign the operating agreement. The total cost of this payment is $440,000. The Port Commission and the private homeowners signed the document on April 10th, 2017.

B. Major Customer

Operating receipts from a local aerospace company represent 42.5% of the operating receipts for 2016. The total billings for this customer in 2016 equaled $12,693,579 and of this amount $1,200,097 remains outstanding as of December 31, 2016.

Introduction: The Port of Everett is providing the following Required Supplementary Information to meet our financial reporting requirements. This information is an integral part of the accompanying financial statements. RSI generally includes schedules, statistical data, and other information.

Port of Everett
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016
Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.068656%	0.070121%								
Employer's proportionate share of the net pension liability	$3,591,347	3,765,828								
TOTAL	$3,591,347	$3,765,828								
Covered payroll*	$7,721,591	$8,230,352								
Employer's proportionate share of the net pension liability as a percentage of covered payroll	46.51%	45.76%								
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%								

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

* Covered payroll is the payroll on which contributions to a pension plan are based.

Port of Everett
Schedule of Proportionate Share of the Net Pension Liability
PERS 2 & 3
As of June 30, 2016
Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.085692%	0.086756%								
Employer's proportionate share of the net pension liability	$3,061,824	$4,368,096								
TOTAL	$3,061,824	$4,368,096								
Covered payroll*	$7,604,827	$8,104,897								
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.26%	53.89%								
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%								

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

* Covered payroll is the payroll on which contributions to a pension plan are based.

Port of Everett

Schedule of Employer Contributions

PERS 1

As of December 31,2016

Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	$346,796	$422,497								
Contributions in relation to the statutorily or contractually required contributions*	($12,432)	($422,497)								
Contribution deficiency (excess)	$0	$0								
Covered payroll*	$7,764,262	$8,694,275								
Contributions as a percentage of covered payroll	4.47%	4.86%								

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

* Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8)

*** Covered payroll is the payroll on which contributions to a pension plan are based.**

Schedule of Employer Contributions

PERS 2 & 3

As of December 31,2016

Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	$429,433	$533,873								
Contributions in relation to the statutorily or contractually required contributions*	($777,772)	($533,873)								
Contribution deficiency (excess)	$0	$0								
Covered payroll*	$7,642,240	$8,569,393								
Contributions as a percentage of covered payroll	5.62%	6.23%								

Notes to Schedule:

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

* Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8)

* Covered payroll is the payroll on which contributions to a pension plan are based.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov