



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**  
**Port of Port Angeles**

**For the period January 1, 2016 through December 31, 2017**

**Published September 6, 2018**

**Report No. 1022044**





**Office of the Washington State Auditor  
Pat McCarthy**

September 6, 2018

Board of Commissioners  
Port of Port Angeles  
Port Angeles, Washington

**Report on Financial Statements and Federal Single Audit and  
Passenger Facility Charges**

Please find attached our report on the Port of Port Angeles financial statements, compliance with federal laws and regulations and compliance with requirements applicable to its passenger facility charge program.

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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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Port of Port Angeles January 1, 2017 through December 31, 2017

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Port of Port Angeles are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

#### Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

**Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
97.056	Port Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Port did not qualify as a low-risk auditee under the Uniform Guidance.

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.



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**Board of Commissioners**  
 Connie Beauvais, President  
 Steven Burke, Vice President  
 Colleen McAleer, Secretary  
**Executive Director**  
 Karen Goschen

<b>Audit Period:</b> 1/1/16- 12/31/16	<b>Report Ref. No.:</b> 1019672	<b>Finding Ref. No.:</b> 2016-001	<b>CFDA Number(s):</b> 11.300
<b>Federal Program Name and Granting Agency:</b> Economic Development Administration, Department of Commerce		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The Port did not have adequate internal controls to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements.			
<b>Background:</b> <p>During fiscal year 2016, the Port spent \$2,705,242 of federal funds in its Investments for Public Works and Economic Development Facilities grant program. The purpose of the program is to support the construction or rehabilitation of essential public infrastructure and facilities necessary to generate or retain private sector jobs and investments, attract private sector capital and promote regional competitiveness, innovation and entrepreneurship.</p> <p>The Davis-Bacon Act (Act) requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts financed with more than \$2,000 of federal funds be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor. The Act includes a requirement for the contractor or subcontractor to submit to the Port weekly, for each week in which and contract work is performed, a copy of its payroll and a statement of compliance (weekly certified payroll).</p> <p>The Port did not have a process in place to ensure contractors and subcontractors working on federal grant-funded projects filed weekly certified payrolls.</p>			
<b>Status of Corrective Action: (check one)</b>			
<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid

**Corrective Action Taken:**

*The Port implemented a new process in order to ensure that all contractors and subcontractors working on federal grant-funded projects filed weekly certified payrolls. When a new project is started that requires certified payroll, the public works manager notifies the accounting manager. At that point, she obtains a copy of the construction schedule and prints out a calendar for each contractor and subcontractor. She then notes the due dates on each calendar based on the construction calendar. As certified payrolls are received, the accounting manager checks them off on the related calendars. If a weekly report is missing, she requests it through the "My L&I" intents and affidavits screen. By checking the intents and affidavits screen regularly, she can determine if a new subcontractor has been added and will then create a separate calendar for them. Before retention is released, the Accounting Manager ensures that the Port has received all required certified payrolls.*

**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 Port Angeles  
January 1, 2016 through December 31, 2017**

Board of Commissioners  
Port of Port Angeles  
Port Angeles, 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 Port Angeles, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated August 28, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits 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

August 28, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**Port of Port Angeles  
January 1, 2017 through December 31, 2017**

Board of Commissioners  
Port of Port Angeles  
Port Angeles, Washington

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

We have audited the compliance of the Port of Port Angeles, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2017. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

August 28, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY  
CHARGE PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE**

**Port of Port Angeles  
January 1, 2017 through December 31, 2017**

Board of Commissioners  
Port of Port Angeles  
Port Angeles, Washington

**REPORT ON COMPLIANCE FOR PASSENGER FACILITY  
CHARGES**

We have audited the compliance of the Port of Port Angeles, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2017.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the Port's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port's compliance with those requirements.

### **Opinion on Compliance**

In our opinion, the Port of Port Angeles complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2017.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the Port's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy  
State Auditor  
Olympia, WA

August 28, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Port of Port Angeles January 1, 2016 through December 31, 2017**

Board of Commissioners  
Port of Port Angeles  
Port Angeles, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Port of Port Angeles, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 19.

#### **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 audits. We conducted our audits 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 Port Angeles, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements*,

*Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The accompanying Schedule of Passenger Facility Charges is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. These schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

August 28, 2018

## FINANCIAL SECTION

### Port of Port Angeles January 1, 2016 through December 31, 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017 and 2016

#### REQUIRED SUPPLEMENTARY INFORMATION

Information on Postemployment Benefits Other than Pensions – 2017 and 2016

Schedule of Employer Contributions – (PERS) – 2017 and 2016

Schedule of Proportionate Share of Net Pension Liability – (PERS) – 2017 and 2016

#### SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

Schedule of Passenger Facility Charges – 2017

Notes to the Schedule of Passenger Facility Charges – 2017

**Port of Port Angeles  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**INTRODUCTION**

The Port is a special-purpose municipality providing marina, airport and marine terminal services, as well as industrial property leases, and fosters economic activity within the district. The Port of Port Angeles was approved by Clallam County voters in 1922 and established in 1923. The Port is independent from other local or state governments and operates within the Clallam County district boundaries. It is administered by a three-member Board of Commissioners. In 2014, the public voted to change the term of office for new elected Commissioners to a four-year term instead of a six-year term. The Commission delegates authority to an Executive Director to manage the operations of the Port. The Port is supported primarily through operating revenues (user charges, marine terminal tariffs, rental rates, and fees). Property tax revenue is used for funding debt service payments on capital projects and funding a community partner program in which the Port provides funding for small economic development projects within Clallam County. Any remaining property tax revenue is added to the capital improvement fund.

This section contains the Port of Port Angeles' Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar year ended December 31, 2017, and December 31, 2016. It provides an introduction to the Port's 2017 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes 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. Additionally, other factors not shown on the financial reports should be evaluated to assess the Port's true financial condition, such as changes in the Port's tax base and the condition of the Port's asset base.

**Overview of the Financial Statements**

The financial section of the annual report consists of three parts:

- Management's Discussion and Analysis (MD&A)
- Financial Statements, which includes:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
- Notes to the Financial Statements

The financial statements in the annual report describe whether the Port is better or worse off as a result of the year's activities. Following is a brief discussion of the various statements.

- Statement of Net Position reflects the Port's financial position at year-end. It presents information on all of the Port's assets, deferred outflows, liabilities and deferred inflows, with the difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows reported as Net Position. The value of Net Position represents a specific point in time. Over time, increases or decreases in Net Position may serve as an indicator of whether the financial position of the Port is improving or deteriorating.
- Statement of Revenues, Expenses, and Changes in Net Position reflects changes in the Port's financial position (Net Position) during the current year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows. This statement presents changes in Net Position from income or loss from operations as well as non-operating revenues and expenses, capital contributions and extraordinary items.
- Statement of Cash Flows reflects the net increases or decreases in cash from the following activities: Operating Activities, which includes a reconciliation of cash flows from operating activities to net income (loss) from operations; Noncapital Financing Activities; Capital and Related Financing Activities; Investing Activities.

## FINANCIAL HIGHLIGHTS

### Year Ended December 31, 2017

- Summary: The Port's financial position in 2017 improved due to the following:
- Change in Net Position: The ending net position (assets and deferred outflows that exceed liabilities and deferred inflows) was \$71.33 million, which was an increase of \$1.58 million. This is the result of (\$0.80) million loss from operations after depreciation of \$2.48 million, \$1.55 million addition from net non-operating activities (taxes, operating grants and environmental expenses and revenues), and \$0.83 million increase from capital grant contributions. Operating revenues increased overall by \$0.63 million or 6.6%, primarily due to a higher than projected increase across all business lines.
- Assets: Total assets of the Port were \$84.82 million, which was an increase of \$0.47 million. Net capital assets (land, buildings, improvements and equipment net of accumulated depreciation) comprised \$63.40 million or 75.0% of total assets. A significant portion of the Port's assets were substantially comprised of cash and investments, for a sum of \$19.05 million of which \$0.97 million was restricted (custodial account and customer deposits/prepays), while the rest was available to be used for any purpose.
- Liabilities: The Port's total liabilities decreased (10.5%) or (\$1.57) million in 2017. The largest decreases were 1) (\$0.64) million of pension liability primarily due to the state decreasing the allocation percentages for determining each public entity's liability; and 2) (\$0.47) million long-term debt primarily due to planned debt service payments; and 3) (\$0.24) million decrease in long term environmental remediation liabilities.
- Deferred Inflows and Outflows: In 2017, the Port recognized a decrease in deferred outflows of (\$162,458) and an increase in deferred inflows of \$298,251 as a result of the GASB 68 pension reporting guidance which recognizes timing differences in payments relating to the liability associated with the state pension program. GASB 68 is discussed further in Note 12 – Pension Plans.

### Year Ended December 31, 2016

- Change in Net Position: The ending net position (assets and deferred outflows that exceed liabilities and deferred inflows) was \$69.75 million, which was an increase of \$8.92 million. This is the result of (\$0.64) million loss from operations after depreciation of \$2.23 million, \$3.11 million addition from net non-operating activities (taxes, operating grants and environmental expenses and revenues), and \$6.45 million increase from capital grant contributions. Operating revenues increased overall by \$0.83 million or 9.7%, primarily due to an increase in the export log market which provides revenues for Marine Terminals and Log Handling. Marina revenues have been experiencing a slow decline over the past several years but held stable at \$2.5 million in 2016. All other lines of business remained stable with revenues similar to previous years.
- Assets: Total assets of the Port were \$84.36 million, which was an increase of \$7.25 million. Net capital assets (land, buildings, improvements and equipment net of accumulated depreciation) comprised \$60.54 million or 71.7% of total assets. A significant portion of the Port's assets were substantially comprised of cash and investments, for a sum of \$20.20 million of which \$1.7 million was restricted (custodial account, debt service and customer deposits/prepays), while the rest was available to be used for any purpose.
- Liabilities: The Port's total liabilities decreased (1.5%) or (\$0.24) million in 2016. The largest decrease was (\$0.77) million of long-term debt due to planned debt service payments. Other significant changes included a (\$0.71) million decrease in total environmental remediation liabilities and a \$0.42 million increase in pension liability relating to the GASB 68 recognition of liability for the state retirement plan. In 2016, the Port also recognized \$0.66 million of unearned

revenue related to funding received in advance for planned future environmental monitoring expenses.

- Deferred Inflows and Outflows: In 2016, the Port recognized an additional \$167,899 of deferred outflows and (\$267,553) decrease of deferred inflows as a result of the GASB 68 pension reporting guidance which recognizes timing differences in payments relating to the liability associated with the state pension program. GASB 68 is discussed further in Note 12 – Pension Plans. The Port also recognized \$1.0 million from deferred inflows relating to a construction grant received in the prior year and used in 2016.

### Condensed Comparative Financial Data

The Statement of Net Position reflects the Port's financial position at year-end. It includes all Port assets and liabilities at a specific point in time. Changes in Net Position may serve as an indicator of whether the financial position of the Port is improving or deteriorating.

<b>STATEMENT OF NET POSITION</b>					
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Increase (Decrease) 2017-2016</b>	<b>Increase (Decrease) 2016-2015</b>
Current Assets	\$ 18,560,610	\$ 17,965,619	\$ 17,745,930	\$ 594,991	\$ 219,689
Noncurrent Assets	\$ 66,263,806	\$ 66,393,737	\$ 59,366,722	( 129,931 )	7,027,015
<b>Total Assets</b>	<b>84,824,416</b>	<b>84,359,356</b>	<b>77,112,652</b>	<b>465,060</b>	<b>7,246,704</b>
<b>Deferred Outflows of Resources</b>	<b>272,280</b>	<b>434,738</b>	<b>266,839</b>	<b>( 162,458 )</b>	<b>167,899</b>
Current Liabilities	3,278,094	3,632,316	4,343,245	( 354,222 )	( 710,929 )
Noncurrent Liabilities	10,102,296	11,320,498	10,845,796	( 1,218,202 )	474,702
<b>Total Liabilities</b>	<b>13,380,390</b>	<b>14,952,814</b>	<b>15,189,041</b>	<b>( 1,572,424 )</b>	<b>( 236,227 )</b>
<b>Deferred Inflows of Resources</b>	<b>384,951</b>	<b>91,672</b>	<b>1,364,197</b>	<b>293,279</b>	<b>( 1,272,525 )</b>
Net Investment in Capital Assets	56,643,505	53,579,787	43,506,292	3,063,718	10,073,495
Restricted for Environmental	30,572	125,024	66,172	( 94,452 )	58,852
Unrestricted Net Position	14,657,279	16,044,797	17,253,789	( 1,387,518 )	( 1,208,992 )
<b>Total Net Position</b>	<b>\$ 71,331,356</b>	<b>\$ 69,749,608</b>	<b>\$ 60,826,253</b>	<b>\$ 1,581,748</b>	<b>\$ 8,923,355</b>

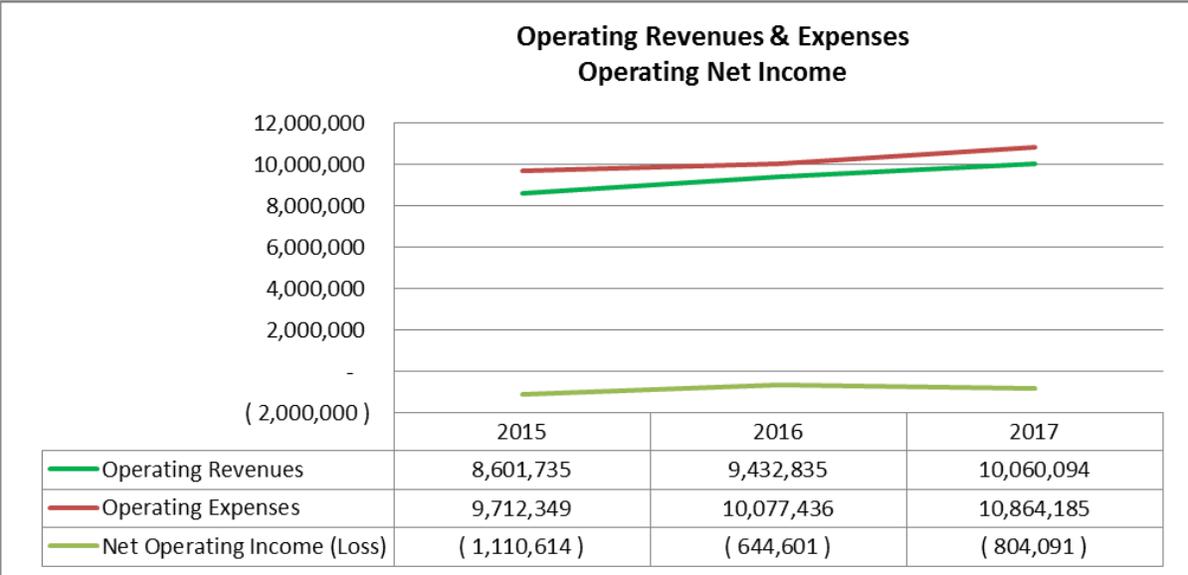
\*\*\*Continue on to next page for the Statement of Revenues, Expenses and Changes in Net Position\*\*\*

The Statement of Revenues, Expenses and Changes in Net Position reflects changes in the Port's financial position during the year (in contrast to the Net Position statement which is a snapshot on December 31, 2017). This statement presents the inflows of revenues and outflows of expenses.

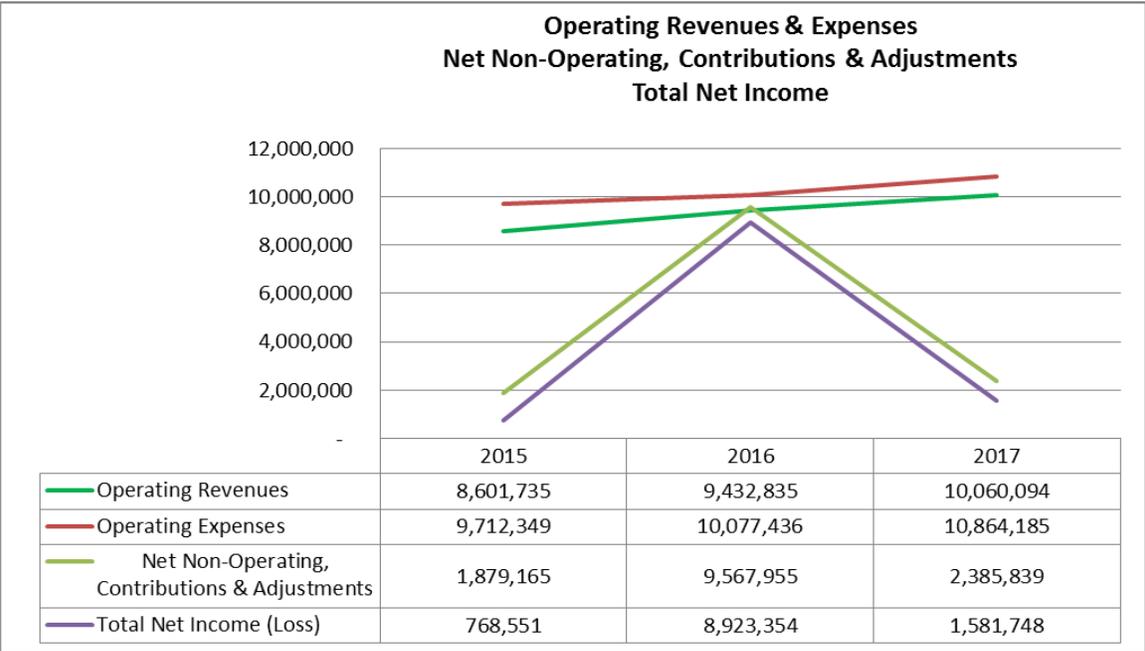
<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Increase (Decrease) 2017-2016</b>	<b>Increase (Decrease) 2016-2015</b>
<b>Operating Revenues</b>					
Marine Terminals	\$ 3,335,355	\$ 3,173,011	\$ 2,957,713	\$ 162,344	\$ 215,298
Marine Trades	457,929	432,325	419,600	25,604	12,725
Log Handling	1,922,935	1,786,523	1,224,692	136,412	561,831
Airports	1,570,909	1,428,090	1,284,080	142,819	144,010
Marinas & Launch Ramps	2,661,397	2,532,939	2,467,569	128,458	65,370
Property Rentals	111,569	79,947	248,081	31,622	( 168,134 )
<b>Total Operating Revenues</b>	<b>10,060,094</b>	<b>9,432,835</b>	<b>8,601,735</b>	<b>627,259</b>	<b>831,100</b>
<b>NonOperating Revenues</b>	<b>1,949,423</b>	<b>3,484,497</b>	<b>2,546,354</b>	<b>( 1,535,074 )</b>	<b>938,143</b>
<b>Total Revenues</b>	<b>12,009,517</b>	<b>12,917,332</b>	<b>11,148,089</b>	<b>( 907,815 )</b>	<b>1,769,243</b>
<b>Operating Expenses</b>					
Marine Terminals	1,037,567	921,823	1,129,737	115,744	( 207,914 )
Marine Trades	490,069	677,443	459,091	( 187,374 )	218,352
Log Handling	2,360,367	2,016,563	1,810,996	343,804	205,567
Airports	2,132,594	2,014,761	1,879,776	117,833	134,985
Marinas & Launch Ramps	2,090,159	1,972,653	2,084,696	117,506	( 112,043 )
Property Rentals	273,841	244,449	2,077,568	29,392	( 26,036 )
Depreciation	2,479,588	2,229,744	2,077,568	249,844	152,176
<b>Total Operating Expenses</b>	<b>10,864,185</b>	<b>10,077,436</b>	<b>9,712,349</b>	<b>786,749</b>	<b>365,087</b>
<b>NonOperating Expense</b>	<b>394,543</b>	<b>370,434</b>	<b>791,484</b>	<b>24,109</b>	<b>( 421,050 )</b>
<b>Total Expenses</b>	<b>11,258,728</b>	<b>10,447,870</b>	<b>10,503,833</b>	<b>810,858</b>	<b>( 55,963 )</b>
<b>Income (Loss) before Capital Contributions</b>	<b>750,789</b>	<b>2,469,464</b>	<b>644,256</b>	<b>( 1,718,675 )</b>	<b>1,825,208</b>
Capital Contributions	830,959	6,453,890	2,238,639	( 5,622,931 )	4,215,251
<b>Change in Net Position</b>	<b>1,581,748</b>	<b>8,923,354</b>	<b>2,882,895</b>	<b>( 7,341,606 )</b>	<b>6,040,459</b>
Net Position - January 1	69,749,608	60,826,254	60,057,704	8,923,354	768,550
Cumulative change in acct standards	-	-	( 2,114,344 )	-	2,114,344
Net Position - Adjusted	69,749,608	60,826,254	57,943,360	8,923,354	2,882,894
<b>Net Position - December 31</b>	<b>71,331,356</b>	<b>69,749,608</b>	<b>\$60,826,255</b>	<b>\$1,581,748</b>	<b>\$8,923,353</b>

### **Summary of Operating and Non-Operating Activity**

The operating functions of the Port include: Marine Terminals (dockage, wharfage, service and facilities, security fees); Marine Trades (boatyard fees, equipment rental, travel lift pier fees); Log Handling (fees for handling logs, such as sorting, bundling, stacking, staging, loading, rafting and equipment rental for movement by both land and water); Airport operations and industrial properties on airport land; Marinas and Boat Launch Ramps; and Property Rentals (land and structure rent that is not associated with another operating function). The operating functions of the Port are considered in the following graph.



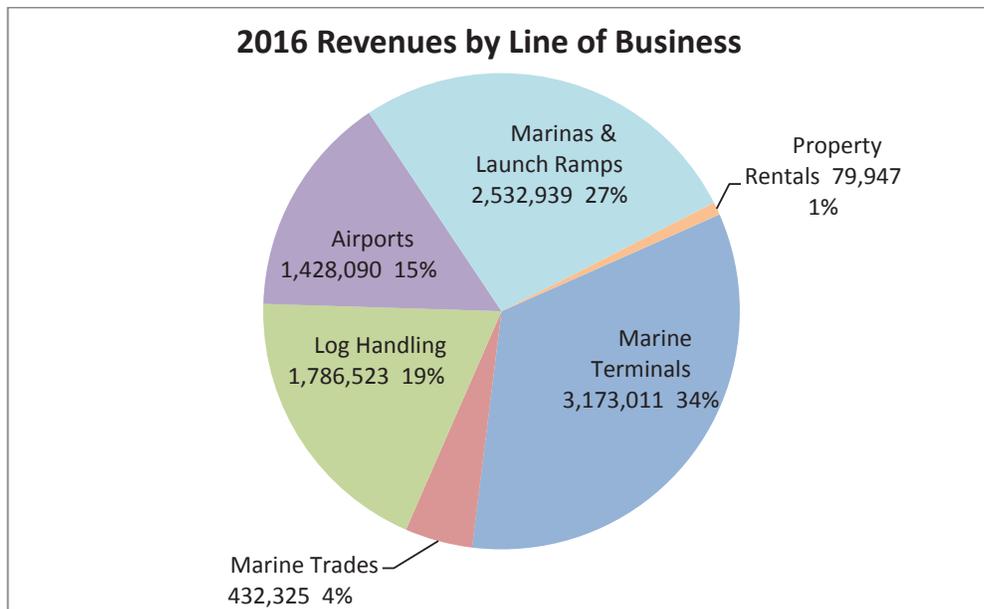
The non-operating functions of the Port include: property, timber and other tax revenues; investment earnings; operating grants; legacy environmental expenses, grants and insurance recoveries; and bond issue costs and interest expense. There are also capital contributions from capital grants. Occasionally there are special and extraordinary items and prior period adjustments such as the \$2.1 million 2015 GASB 68 adjustment. The operating and non-operating functions of the Port are considered in the following graph.



In 2017, the primary sources of revenue were from Marine Terminals, Marinas, Log Handling and the Airport industrial properties. Marine Terminals and Log Handling accounted for just over half of all Port revenue. In 2016, net non-operating revenue was significantly higher because of grant funding. Grant funding included \$1.0 million for the Airport Improvement Plan and \$4.0 million for completion of the construction of a building at the airport industrial park.



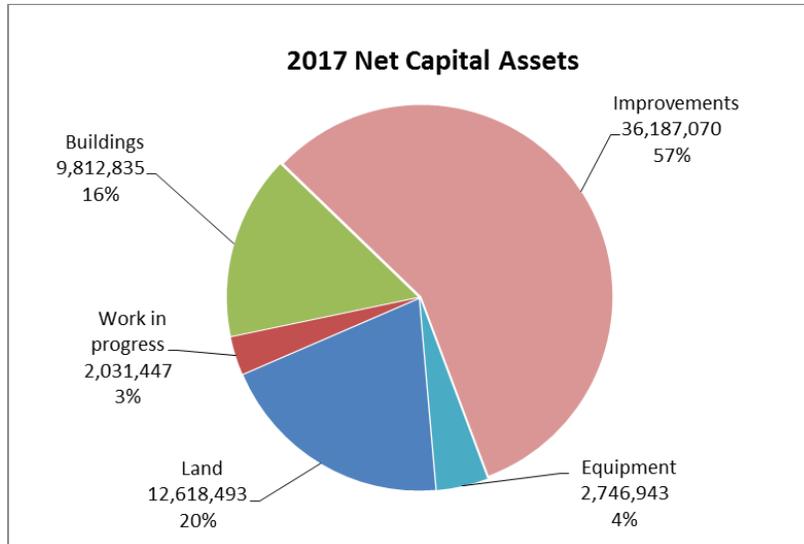
In 2016, the primary sources of revenue were from Marine Terminals, Marinas, Log Handling and the Airport industrial properties. Marine Terminals and Log Handling accounted for just over half of all Port revenue. Airport Revenue includes rental property revenue from leases and rentals within the airport industrial park which totaled \$1,039,731 in 2015 and \$1,170,555 in 2016.



## CAPITAL ASSETS

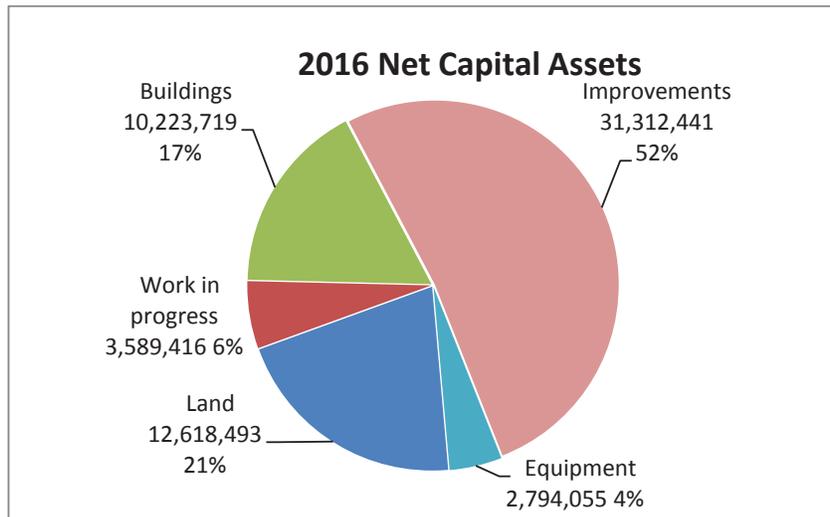
### Year Ended December 31, 2017

In 2017, the Port's net capital assets increased by \$2.86 million (after depreciation) or 4.7% over 2016. The 3 largest items capitalized in 2017 were \$1.82 million for marine terminal stormwater improvements, \$1.51 million for airport plane parking expansion, and \$1.08 million for construction of a mooring dolphin at one of the Port's marine terminals. Other expenditures included \$0.83 million for marine terminal security upgrades, \$0.42 million for log yard stormwater improvements, and \$0.22 million for rental properties improvements.



### Year Ended December 31, 2016

In 2016, the Port's net capital assets increased by \$9.34 million (after depreciation) or 18.2% over 2015. The 2 largest items were a \$5.6 million project to redevelop our largest marine terminal and \$4.5 million to construct an industrial building used for recycling carbon fiber. Other expenditures included \$0.65 million to reconstruct a boat launch facility and \$0.60 million to purchase a log stacker used in the log yard.



**Net Capital Assets and Change in Year-End Balances**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Net Change 2017 - 2016</b>	<b>Net Change 2016 - 2015</b>
Land	12,618,493	12,618,493	12,652,646	-	(34,153)
Work in progress	2,031,447	3,589,416	3,890,458	(1,557,969)	(301,042)
Buildings	9,812,835	10,223,719	6,071,820	(410,884)	4,151,899
Improvements	36,187,070	31,312,441	26,452,177	4,874,629	4,860,264
Equipment	2,746,943	2,794,055	2,129,250	(47,112)	664,805
	<u>\$63,396,788</u>	<u>\$60,538,124</u>	<u>\$51,196,351</u>	<u>\$2,858,664</u>	<u>\$9,341,773</u>

See Note 4 for increases and decreases in capital assets and depreciation.

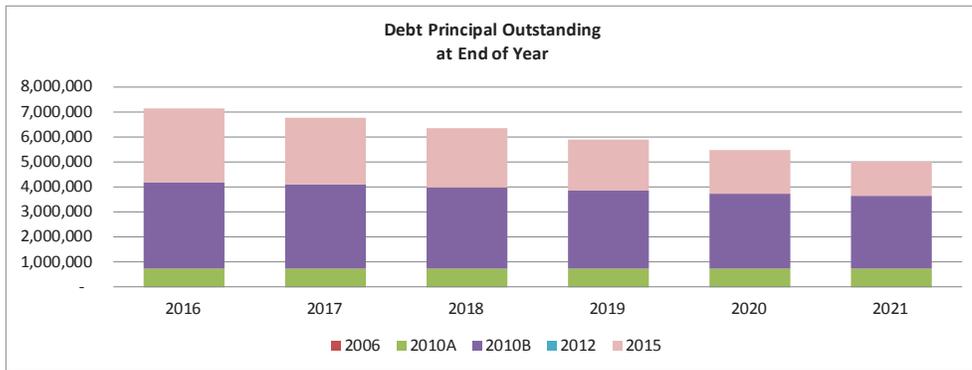
**Debt Administration**

**Year Ended December 31, 2017**

At December 31, 2017, the Port had general obligation bond debt outstanding (excluding premium/discount) of \$6.75 million, of which \$417,099 is due within one year. During 2017, the Port made debt principal payments of \$402,841. The terms of the debt varies by issue with interest rates ranging from 2.29% to 7.50%. The debt with the 7.50% interest rate is eligible for a rate subsidy, making the effective rate 3.375%. The general obligation bonds will be fully amortized at the end of 2030. The Port uses property taxes for debt service payments. Based on property taxes exceeding current debt payments, the Port estimates the excess property taxes would cover an additional \$10.5 million of non-voted general obligation debt. The non-voted debt capacity of the Port was \$12.5 million at December 31, 2017.

**Year Ended December 31, 2016**

At December 31, 2016, the Port had general obligation bond debt outstanding (excluding premium/discount) of \$7.1 million, of which \$402,841 is due within one year. During 2016 the Port made debt principal payments of \$768,703. The terms of the debt varies by issue with interest rates ranging from 2.29% to 7.50%. The debt with the 7.50% interest rate is eligible for a rate subsidy, making the effective rate 3.375%. The general obligation bonds will be fully amortized at the end of 2030. The Port uses property taxes for debt service payments. Based on property taxes exceeding current debt payments, the Port estimates the excess property taxes would cover an additional \$10.2 million of non-voted general obligation debt. The non-voted debt capacity of the Port was \$11.1 million at December 31, 2016. On December 1, 2016 the 2012 LTGO bonds matured (25 projects from 1993 – 1998).



Debt Outstanding (at end of year)		2016	2017	2018	2019	2020	2021
2006	PABH	-----see 2015 Refunding-----					
2010A	Composite Mfg-Site	760,000	760,000	760,000	760,000	760,000	760,000
2010B	Composite Mfg-Bldg	3,435,000	3,330,000	3,220,000	3,110,000	2,990,000	2,870,000
2012	25 Projects 1993-98	-	-	-	-	-	-
2015	Refunded 2006 PABH	2,957,647	2,659,806	2,352,706	2,035,899	1,714,800	1,384,420
<b>Total Principal Outstanding</b>		<b>7,152,647</b>	<b>6,749,806</b>	<b>6,332,706</b>	<b>5,905,899</b>	<b>5,464,800</b>	<b>5,014,420</b>
<b>Decrease in Principal</b>		<b>768,703</b>	<b>402,841</b>	<b>417,099</b>	<b>426,807</b>	<b>441,099</b>	<b>450,380</b>

		2018 thru 2030		
		Original	Remaining	
		Principal	Principal Pymts	Maturity
2006	PABH	4,995,000	-----see 2015 Refunding-----	
2010A	Composite Mfg-Site	760,000	760,000	Dec 1, 2030
2010B	Composite Mfg-Bldg	3,435,000	3,330,000	Dec 1, 2029
2012	25 Projects 1993-98	1,830,000	0	Dec 1, 2016
2015	Refunded 2006 PABH	3,251,350	2,659,806	Dec 1, 2025
		<b>14,271,350</b>	<b>6,749,806</b>	

See Note 10 for additions and reductions in long-term liabilities.

**PORT OF PORT ANGELES  
STATEMENT OF NET POSITION**

As of December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 12,375,009	\$ 10,560,478
Restricted Cash & Cash Equivalents	969,298	1,546,868
Investments	2,975,000	2,285,000
Accounts Receivable, net of allowance	575,924	1,025,352
Contracts, Notes & Insurance Receivable, current	211,011	271,314
Prepayments and Other Current Assets	313,976	491,243
Grants receivable	1,032,278	1,674,312
Taxes Receivable	108,114	111,052
<b>Total Current Assets</b>	<b>18,560,610</b>	<b>17,965,619</b>
<b>NONCURRENT ASSETS</b>		
Investments	2,726,458	5,810,685
Depreciable Assets, Net of Accumulated Depreciation	48,746,848	44,330,215
Land	12,618,493	12,618,493
Work in Progress	2,031,447	3,589,416
Other Noncurrent Assets:		
Contracts & Note Receivable, net of current portion	140,560	44,928
<b>Total Noncurrent Assets</b>	<b>66,263,806</b>	<b>66,393,737</b>
<b>TOTAL ASSETS</b>	<b>84,824,416</b>	<b>84,359,356</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows - Pensions	272,280	434,738
<b>CURRENT LIABILITIES</b>		
Accounts Payable	460,103	395,948
Accrued Expenses	388,316	328,562
Customer Deposits & Prepaid Revenues	99,331	100,491
Contracts Payable	750,495	1,005,263
Grant Payable	704,161	704,161
Custodial Account	122,286	382,810
Long-Term Debt, current portion	414,339	400,081
Environmental Remediation, current portion	339,063	315,000
<b>Total Current Liabilities</b>	<b>3,278,094</b>	<b>3,632,316</b>
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt	6,299,583	6,713,922
Environmental Remediation	102,500	339,868
Employee Leave Benefits	463,069	428,739
Other Post Employment Benefits	905,357	715,803
Pension Liability	1,829,294	2,464,350
Unearned Revenue	502,493	657,816
<b>Total NonCurrent Liabilities</b>	<b>10,102,296</b>	<b>11,320,498</b>
<b>TOTAL LIABILITIES</b>	<b>13,380,390</b>	<b>14,952,814</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows - Pensions	345,589	47,338
Grant received in advance	-	-
Deferred gain on bond refunding	39,362	44,334
	<b>384,951</b>	<b>91,672</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	56,643,505	53,579,787
Restricted for Environmental	30,572	125,024
Unrestricted Net Position	14,657,279	16,044,797
<b>TOTAL NET POSITION</b>	<b>\$ 71,331,356</b>	<b>\$ 69,749,608</b>

The Accompanying Notes Are An Integral Part Of This Statement

**PORT OF PORT ANGELES**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
For the Fiscal Year Ended December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Marine Terminals	\$ 3,335,355	\$ 3,173,011
Marine Trades	457,929	432,325
Log Handling	1,922,935	1,786,523
Airports	1,570,909	1,428,090
Marinas & Launch Ramps	2,661,397	2,532,939
Property Rentals	111,569	79,947
<b>Total Operating Revenues</b>	<b>10,060,094</b>	<b>9,432,835</b>
<b>OPERATING EXPENSES</b>		
General Operations	4,306,287	3,675,467
Maintenance	1,388,913	1,368,625
General and Administrative	2,689,397	2,803,600
Depreciation	2,479,588	2,229,744
<b>Total Operating Expenses</b>	<b>10,864,185</b>	<b>10,077,436</b>
<b>OPERATING INCOME (LOSS)</b>	<b>( 804,091 )</b>	<b>( 644,601 )</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Ad Valorem Taxes (general tax levy)	1,475,280	1,458,658
Taxes from Timber & Leasehold Interest	201,551	219,760
Passenger Facility Charges	1,661	1,705
Investment Income	296,389	485,058
Interest Expense	( 263,118 )	( 268,180 )
Election Expense	( 20,517 )	-
Increase (Decrease) in Fair Value of Investments	( 82,125 )	( 56,177 )
Non-Capital Grants	21,626	( 46,077 )
Environmental Remediation Revenue (Expense)	( 26,879 )	1,255,399
Gain (loss) on retirement of Capital Assets	-	10,328
Miscellaneous Revenue (Expense)	( 48,988 )	53,589
<b>Net NonOperating Revenues (Expenses)</b>	<b>1,554,880</b>	<b>3,114,063</b>
<b>INCOME (LOSS)</b>		
<b>Before Capital Contributions</b>	<b>750,789</b>	<b>2,469,464</b>
Capital Contributions	830,959	6,453,890
<b>CHANGE IN NET POSITION</b>	<b>1,581,748</b>	<b>8,923,354</b>
<b>Net Position - January 1</b>	<b>69,749,608</b>	<b>60,826,254</b>
<b>NET POSITION - December 31</b>	<b>\$ 71,331,356</b>	<b>\$ 69,749,608</b>

**The Accompanying Notes Are An Integral Part Of This Statement**

**PORT OF PORT ANGELES  
STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$10,560,374	\$8,990,013
Less: Cash paid to suppliers and employees	(8,402,796)	(7,233,125)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>2,157,578</b>	<b>1,756,888</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes received	1,478,218	1,420,310
Timber and leasehold taxes received	201,551	219,760
Cash received from operating grants	71,626	544,656
Cash rec'd (paid) for environmental remediation expenses	(586,126)	5,822,608
Other NonOperating revenues (expenses)	(69,505)	53,589
<b>Net Cash Provided by (Used in) Noncapital Financing</b>	<b>1,095,764</b>	<b>8,060,923</b>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING</b>		
Cash received from Passenger Facility Fees	1,661	1,705
Capital contributions from grants	1,422,993	5,464,911
Proceeds from bond issue	0	0
Acquisition and construction of capital assets	(5,586,647)	(11,640,698)
Principal paid on capital debt	(400,081)	(776,054)
Interest paid on capital debt	(263,124)	(274,364)
<b>Net Cash Provided by (Used in) Capital &amp; Financing Activities</b>	<b>(4,825,198)</b>	<b>(7,224,500)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	2,285,000	4,570,000
Purchase of investments	0	(3,000,000)
Interest received on investments & unrealized gain/loss	523,817	305,747
Other: Payment received on contract note receivable	0	0
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>2,808,817</b>	<b>1,875,747</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>		
	<b>1,236,961</b>	<b>4,469,058</b>
Cash and cash equivalents at beginning of year	12,107,346	7,638,290
<b>CASH &amp; CASH EQUIVALENTS END OF YEAR</b>	<b>13,344,307</b>	<b>12,107,348</b>
<b>RECONCILIATION OF (A) OPERATING INCOME TO (B) NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
(a) Operating Income	(804,091)	(644,601)
(b) Net Cash Provided by Operating Activities		
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,479,588	2,229,744
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	500,280	(442,824)
(Increase) Decrease in Inventories & Prepayments	(23,052)	11,514
Increase (Decrease) in Accounts & Other Payables	64,155	43,340
Increase (Decrease) in Other Accrued Expenses	59,754	(251,879)
Increase (Decrease) in Other Liabilities	(119,056)	811,592
<b>NET CASH OPERATING ACTIVITIES</b>	<b>2,157,578</b>	<b>1,756,886</b>
<b>NON-CASH INVESTING &amp; FINANCING ACTIVITIES</b>		
Increase (Decrease) in Fair Value of Investments	(82,125)	(56,177)

**The Accompanying Notes Are An Integral Part Of This Statement**

**Port of Port Angeles  
Notes to Financial Statements  
For the Year Ended December 31, 2017**

**1. Summary of significant accounting policies**

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

In June 2012, the Governmental Accounting Standards Board issued GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. The Port implemented GASB 68 for the year ended December 31, 2015. See note on Other Disclosures Prior Period Adjustment for the net result of recording previous Net Pension Liability.

The significant policies are described below.

**Reporting Entity**

The Port is a municipal corporation of the State of Washington created in 1923 under provisions of the Revised Code of Washington (RCW) 53.04.010 et seq. The Port has geographic boundaries coextensive with Clallam County, Washington and its home office is situated on the Port Angeles harbor.

The Port is independent from Clallam County government and is administered by a three-member Board of Commissioners elected by Clallam County voters. The Commission delegates administrative authority to an Executive Director to manage operations of the Port. Clallam County does levy and collect taxes on behalf of the Port. Clallam County provides no funding to the Port. Additionally, Clallam County does not hold title to any of the Port's assets, nor does it have any right to the Port's surpluses.

The Port provides docks and wharves for waterborne commerce as well as marina and airport facilities. The Port also owns and manages significant industrial properties.

The Industrial Development Corporation (IDC), a public corporation, is authorized to facilitate the issuance of tax-exempt non-recourse 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 are used.

The IDC is governed by the Port's three member Port Commission. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 338 West First Street in Port Angeles, WA

**Basis of Accounting and Reporting**

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

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

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

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

#### **Operating and Non-Operating Revenues and Expenses**

The Port classifies as Operating those revenues and expenses that result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. Revenues from Marine Terminals, Marine Trades (haul-out pier and boatyard), Log Handling services, Airports, Marinas, and Property Rentals are charges for use of the Port's facilities or services and are reported as operating revenues. Expenses associated with these same divisions, such as cost of services, business and economic development, administrative expenses, and depreciation on capital assets, are reported as operating expenses.

Other revenues and expenditures not meeting the definition of operating revenues and expenses described above, including ad valorem tax levy revenues, timber tax revenues, investment earnings, grants and all other revenues and expenses generated from non-operating sources are classified as non-operating. Environmental compliance or remediation expenses that are not part of current ongoing business operations or cannot be capitalized are treated as non-operating expenses.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

#### **Significant Risks and Uncertainties**

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law. The Port also faces a concentration of credit risk wherein a significant portion of the Port's business is transacted with entities in the forest products industry.

#### **Grants-in-Aid Assets**

The Port periodically receives federal and state grants-in-aid funds for construction of certain facilities. Grants are recognized as capital contributions in the accounting period when they become measurable and available. Depreciation on all assets, including grant funded assets, is shown in the Statement of Revenues, Expenses and Net Position.

#### **Ad Valorem Taxes (Property Taxes)**

Ad valorem taxes received by the Port are recognized as revenue based upon the annual amount levied by the Port Commissioners and recorded by Clallam County Assessor. These taxes may be used for the acquisition or construction of facilities, for the retirement of general obligation bonds which were issued for the acquisition or construction of facilities, or for general Port operations. The Commissioners have directed that property taxes are used only for non-operating expenses.

#### **Capital Assets and Depreciation**

The Port's policy is to capitalize all asset additions with a value of \$5,000 or more and with an estimated useful life of at least five years. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Major repairs include expenses with a value in excess of \$10,000 and increase the useful life of the repaired asset by at least five years. Maintenance, repairs, and minor renewals which maintain assets in their current operating condition are recorded as an operating expense.

Prior to 2013 the Port's policy was to capitalize all asset additions greater than \$1,000 and with an estimated useful life of more than five years. Existing assets at the time of the policy change will continue under the prior policy.

All capital assets (land, the cost of infrastructure, facilities and equipment) are valued at historical cost, or estimated historical cost where historical cost is not known. Donated capital assets from developers and customers are recorded at the acquisition value at the date of donation.

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

When an asset is sold, retired or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, are removed from the Port's capital asset accounts, the accumulated depreciation related to the property sold is removed from the accumulated depreciation account, and the net gain or loss on disposition is credited or charged to income.

**Depreciation**

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight line method with useful lives of 5 to 50 years. The following useful lives are used in computing depreciation:

<b>Capital Asset Class</b>	<b>Useful Life</b>
Buildings	5 years to 33 years
Improvements	5 years to 50 years
Machinery and Equipment	5 years to 20 years

**Allocation of Expenses**

For the purposes of financial reporting, the Port allocates the costs of general and administrative departments to the lines of business they support. The cost associated with Administration, Business and Economic Development, and Maintenance is assigned to Marine Terminals, Marinas, Marine Trades, Log Handling, Airports, and Property Rentals.

In 2014 the Port adopted the Modified Total Direct Cost (MTDC) method of allocations. In late 2013, the US Federal Government issued regulations specifying the overhead allocation methodology to be used in Federal grant awards and audits. The methodology selected was Modified Total Direct Cost (MTDC) and it is required for all federal grant reporting starting January 1st, 2015. The Port reviewed MTDC and determined it to be a better overhead cost allocation model and adopted it starting in fiscal year 2014. MTDC allocates overhead based on the proportional amount of direct expense from each line of business less any expenses that need to be excluded in order to "avoid a serious inequity in the distribution of indirect costs." The MDTC methodology is now required for financial reporting of FAA grants received by Port, and the Port has chosen to implement that methodology across all lines of business.

Prior to 2014, the Port used an allocation method that allocated general and administrative costs based on the proportional amounts of revenues and expenses within the lines of business. Expenses were allocated to specific operations using 50% of the ratio of operations revenues to total operating revenues plus 50% of the ratio of operations expenses to total operating expenses.

\*\*\*Continue on to next page for Cash Equivalents\*\*\*

**Cash Equivalents**

General operating cash equivalent includes all unrestricted amounts. It is the Port's policy to invest all temporary cash surpluses. For financial statement purposes, the Port considers all short-term investments, which primarily consist of financial institution deposits and investments in government pools to be cash equivalents on the Statement of Net Position

<b>Cash Equivalents</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
General Operating	\$ 12,375,009	\$ 10,360,478
Other Restricted Assets	969,299	1,746,868
<b>Total</b>	<b>\$ 13,344,308</b>	<b>\$ 12,107,346</b>

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

**Investments**

The Port used quoted market prices to estimate the fair value of all investments. All unrealized gains and losses on investments were included as a change in the fair value of investments reported in the prior and current years.

*See Note 2 for a schedule of Deposits and Investments.*

**Restricted Cash & Investments**

In accordance with bond resolutions and certain related agreements, separate restricted accounts are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special restricted requirements. Restricted Assets contain resources used for payments on debt service. The current portions of related liabilities are shown as the Current Portion of Long Term Debt. The Restricted Assets are composed of the following:

<b>Restricted Assets</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
Cash & Investments (Harbor Group Account)	152,858	507,834
Cash & Investments (Debt Service Fund)	-	200,000
Cash & Investments (Bond Proceeds Fund)	-	-
Cash & Investments (Environmental Reserve)	558,412	657,816
Customer Deposits & Prepaids	99,331	100,491
Contractor's Retainage	158,698	280,727
<b>Total</b>	<b>\$ 969,299</b>	<b>1,746,868</b>

*See Note 2 for a schedule of Deposits and Investments at Fair Value.*

**Accounts Receivable, Net of Allowance**

Customer accounts receivable consist of amounts owed for moorage, rental agreements, marine terminal services, log yard services and other goods and services from private individuals or organizations including amounts owed for which billings have not been prepared. Receivables have been recorded at net of estimated uncollectible accounts. Management determines the allowance for uncollectible accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. An accounts receivable is written off when deemed uncollectible. Recoveries of an accounts receivable previously written off are recorded against the reserve account when received.

<b>Allowance for Uncollectible Accounts</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
Based on delinquent accounts and historical experience	\$ 15,525	\$25,721

**Contracts, Notes and Insurance Receivables**

Other receivables include contracts for the sale of real estate, notes for tenant improvements, long-term agreements for the repayment of rent and insurance receivables primarily related to environmental investigations and remediation. Reduction from 2016 to 2017 is primarily the result of payment from insurance on outstanding receivables.

	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
Rent Repayment Agreement, current	17,812	1,838
Insurance Receivables	193,199	269,477
<b>Total Notes &amp; Insurance Receivables</b>	<b>\$ 211,011</b>	<b>271,315</b>

**Taxes Receivable**

Taxes receivable consists of property taxes and related interest and penalties. Because property taxes and special assessments are considered liens on property, no estimates for uncollectable amounts are established. Taxes receivable also include the Port's share of Timber Tax and Leasehold Excise tax distributions.

*See Note 3 for more information on Property Taxes.*

**Grants Receivables, Amounts Due To and From Other Governments**

These accounts include amounts due to or from other governments for grants, entitlements, and loans from other governmental entities. A Schedule of Financial Assistance, which provides a listing of all federal and state assistance programs in which the Port participates and summarizes the Port's grant transactions, is available upon request.

**Prepayments and Other Current Assets**

Prepayments include insurance policy premiums. Other current assets consist of accrued interest on investments and inventories. Inventories are valued at cost, which approximates net realizable value, using the first-in first-out method (FIFO).

**Employee Leave Benefits**

The Port accrues unpaid vacation and sick leave benefits as earned. Benefits are payable upon termination, resignation, or retirement. Vacation leave, which may be accumulated up to two times the annual vacation amount (annual vacation accrual is 10 to 30 days depending on years of service), is paid at the rate of 100%. Annual sick leave accrual is 96 hours (12 days). Sick leave may be accumulated based on employee status. The annual cash out to VEBA (Voluntary Employees Beneficiary Association - a tax-free post-retirement medical expense account) helps to limit the amount of liability for employee leave benefits. (Represented by ILWU: 400 hours with up to 100 hours annual cash out to VEBA at 75%; Represented by Teamsters: 400 hours with up to 100 hours annual cash out to VEBA at 75%; Non-represented: 300 hours with up to 100 hours annual cash out to VEBA at 75%.) There is no limit on sick leave accrual. Sick leave is paid out at the rate of 75% upon termination.

<b>Employee Leave Benefit Liabilities</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
Unpaid vacation and sick leave	\$ 513,369	\$ 490,639

**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.

### Deferred Outflows/Inflows

Deferred Outflows and Inflows for pension liabilities are shown on the Statement of Net Position and represent the Port's contributions subsequent to the reporting period, as well as changes in actuarial assumptions reported by the Department of Retirement Systems. See Note 12.

Deferred Inflows gain on bond refunding is a result of refunding bonds that had not reached maturity. Previously the gain was amortized over the life of the bond.

## 2. Deposits and Investments

### Deposits

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC agent in the name of the collateral pool. In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance.

The Washington State Local Government Investment Pool (LGIP) is operated by the Washington State Treasurer which operates it in a 2a-7-like manner even though it is not subject to SEC regulation. The LGIP is not rated and is subject to annual audits by the Washington State Auditor's Office.

### Investments

The Port Commission has authorized the Port Treasurer to invest in savings or time deposits in designated public depositories, obligations of the United States or its agencies, obligations of Local and State governments that are rated "A" or higher, and other limited investments. With the exceptions of certain reserve fund investments, the investment policy generally limits the maximum maturity of any security purchased to five years. Investments are purchased through broker relationships with all securities purchased held in the Port's name at a third party custodian.

<b>Deposits &amp; Investments at Fair Value</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
<b>Unrestricted: Cash &amp; Cash Equivalent</b>		
Cash Operations: Financial Institution Deposits	\$ 1,804,074	\$ 1,010,581
Investments:		
Financial Institution Deposits & Money Market	723,666	1,578,182
WA State Local Gvnt Invmt Pool (LGIP)	9,847,269	7,771,715
<b>Unrestricted Cash &amp; Cash Equivalents</b>	<b>\$ 12,375,009</b>	<b>\$ 10,360,478</b>
<b>Restricted: Cash &amp; Cash Equivalent</b>		
Custodial Account - Harbor Group	152,858	507,834
Debt Service Fund & Bond Proceeds	-	200,000
Environmental Reserve	558,412	657,816
Customer Deposits & Prepays, Contractor Retainage	\$ 258,029	\$ 381,218
<b>Restricted Cash &amp; Cash Equivalents</b>	<b>\$ 969,299</b>	<b>\$ 1,746,868</b>
<b>Total Cash &amp; Cash Equivalents</b>	<b>\$ 13,344,307</b>	<b>\$ 12,107,346</b>
<b>Unrestricted Investments</b>		
U.S. Agency Securities	1,991,100	1,987,780
Municipal Bond Investments located in WA State	\$ 3,710,358	\$ 6,107,905
<b>Investments</b>	<b>\$ 5,701,458</b>	<b>\$ 8,095,685</b>
<b>Total Cash, Cash Equivalents &amp; Investments</b>	<b>\$ 19,045,765</b>	<b>\$ 20,203,031</b>

Of the above investments, cash and cash equivalents are protected by the Federal Deposit Insurance Corporation (FDIC) or the Public Deposit Protection Commission (PDPC). The US Agencies are guaranteed by the US government. The municipal bond investments (Ports, Utility Districts, School Districts) are rated "A" and "AA" by Moody's.

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. To minimize this risk, the Port's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping custodian. Of the Port's total investment position in 2017 and 2016, \$ 0 is exposed to custodial collateral risk because the investments are held by the Port's brokerage firm, which is also the counterparty in those particular securities.

**Investments Measured at Fair Value**

The Port measures and reports investments at fair value using the valuation input hierarchy established by generally accepted account 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

At December 31, 2017, the Port of Port Angeles had the following investments measured at fair value:

December 31, 2017		Fair Value Measurements Using		
Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Fannie Mae		1,991,100		1,991,100
Pacific County WA PUD Revenue Bonds		399,184		399,184
Port Angeles WA Electric Revenue Bonds		156,465		156,465
Port of Benton WA LTGO Bonds		266,846		266,846
Port of Moses Lake WA LTGO Bonds		774,903		774,903
Douglas County WA School Dist GO Bonds		2,112,960		2,112,960
<b>Total Investments by Fair Value Level</b>	-	<b>5,701,458</b>	-	<b>5,701,458</b>

The table below identifies the type of investments, concentration of investments in any one issuer, and maturities of the port investment portfolio as of December 31, 2017:

December 31, 2017		Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 3	More than 3	Total	% of Total Portfolio
Fannie Mae	1,991,100	1,991,100			1,991,100	12.09%
Pacific County WA PUD Revenue Bonds	399,184	399,184			399,184	2.42%
Port Angeles WA Electric Revenue Bonds	156,465	156,465			156,465	0.95%
Port of Benton WA LTGO Bonds	266,846	75,780	191,066		266,846	1.62%
Port of Moses Lake WA LTGO Bonds	774,903	349,423	425,480		774,903	4.70%
Douglas County WA School Dist GO Bonds	2,112,960			2,112,960	2,112,960	12.83%
Umpqua Bank Investment Account	923,666	923,666			923,666	5.61%
WA Local Govt Investment Pool*	9,847,269	9,847,269			9,847,269	59.78%
<b>Total</b>	<b>16,472,393</b>	<b>13,742,887</b>	<b>616,546</b>	<b>2,112,960</b>	<b>16,472,393</b>	<b>100.00%</b>
<b>Percentage of Total</b>		<b>83.43%</b>	<b>3.74%</b>	<b>12.83%</b>		

The table below identifies the credit risk of the Port investment portfolio as of December 31, 2017:

December 31, 2017		Moody's Equivalent Credit Rating							
Investment Type	Fair Value	Aa2	Aa1	AA+	AA	AAA	A1	A+	No rating
Fannie Mae	1,991,100					1,991,100			
Pacific County WA PUD Revenue Bonds	399,184				399,184				
Port Angeles WA Electric Revenue Bonds	156,465						156,465		
Port of Benton WA LTGO Bonds	266,846						266,846		
Port of Moses Lake WA LTGO Bonds	774,903						774,903		
Douglas County WA School Dist GO Bonds	2,112,960		2,112,960						
Umpqua Bank Investment Account	923,666								923,666
WA Local Govt Investment Pool*	9,847,269								9,847,269
<b>Total</b>	<b>16,472,393</b>	<b>-</b>	<b>2,112,960</b>	<b>-</b>	<b>399,184</b>	<b>1,991,100</b>	<b>1,198,214</b>	<b>-</b>	<b>10,770,935</b>

\*The fair value of the investments in the Washington State Local Government Investment Pool is the same as the amortized cost of the pool shares.

At December 31, 2016, the Port of Port Angeles had the following investments measured at fair value:

December 31, 2016		Fair Value Measurements Using		
Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Port Angeles WA Electric Revenue Bonds		260,517		260,517
Tacoma WA Metro Park District		1,008,740		1,008,740
Port of Benton WA LTGO Bonds		351,143		351,143
Port of Moses Lake WA LTGO Bonds		1,125,268		1,125,268
Snohomish County WA School GO Bonds		364,266		364,266
Whatcom County WA PUD LTD GO Bonds		405,587		405,587
Fannie Mae		1,987,780		1,987,780
Pacific County WA PUD Revenue Bonds		400,584		400,584
Douglas County WA School Dist GO Bonds		2,191,800		2,191,800
<b>Total Investments by Fair Value Level</b>	-	<b>8,095,685</b>	-	<b>8,095,685</b>

\*\*\*Continue to next page for types of investments and maturities\*\*\*

The table below identifies the type of investments, concentration of investments in any one issuer, and maturities of the port investment portfolio as of December 31, 2016:

December 31, 2016		Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 3	More than 3	Total	% of Total Portfolio
Port Angeles WA Electric Revenue Bonds	260,517	101,278	159,239		260,517	1.48%
Tacoma WA Metro Park District	1,008,740	1,008,740			1,008,740	5.72%
Port of Benton WA LTGO Bonds	351,143	80,868	149,196	121,079	351,143	1.99%
Port of Moses Lake WA LTGO Bonds	1,125,268	338,452	724,139	62,677	1,125,268	6.38%
Snohomish County WA School GO Bonds	364,266	364,266			364,266	2.06%
Whatcom County WA PUD LTD GO Bonds	405,587	405,587			405,587	2.30%
Fannie Mae	1,987,780	1,987,780			1,987,780	11.27%
Pacific County WA PUD Revenue Bonds	400,584		400,584		400,584	2.27%
Douglas County WA School Dist GO Bonds	2,191,800			2,191,800	2,191,800	12.42%
Umpqua Bank Investment Account	1,778,182	1,778,182			1,778,182	10.08%
WA Local Govt Investment Pool*	7,771,715	7,771,715			7,771,715	44.04%
<b>Total</b>	<b>17,645,582</b>	<b>13,836,868</b>	<b>1,433,158</b>	<b>2,375,556</b>	<b>17,645,582</b>	<b>100.00%</b>
<b>Percentage of Total</b>		<b>78.42%</b>	<b>8.12%</b>	<b>13.46%</b>		

The table below identifies the credit risk of the port investment portfolio as of December 31, 2016:

December 31, 2016		Moody's Equivalent Credit Rating							
Investment Type	Fair Value	Aa2	Aa1	AA+	AA	AAA	A1	A+	No rating
Port Angeles WA Electric Revenue Bonds	260,517						260,517		
Tacoma WA Metro Park District	1,008,740	1,008,740							
Port of Benton WA LTGO Bonds	351,143						351,143		
Port of Moses Lake WA LTGO Bonds	1,125,268						1,125,268		
Snohomish County WA School GO Bonds	364,266			364,266					
Whatcom County WA PUD LTD GO Bonds	405,587							405,587	
Fannie Mae	1,987,780					1,987,780			
Pacific County WA PUD Revenue Bonds	400,584				400,584				
Douglas County WA School Dist GO Bonds	2,191,800		2,191,800						
Umpqua Bank Investment Account	1,778,182								1,778,182
WA Local Govt Investment Pool*	7,771,715								7,771,715
<b>Total</b>	<b>17,645,582</b>	<b>1,008,740</b>	<b>2,191,800</b>	<b>364,266</b>	<b>400,584</b>	<b>1,987,780</b>	<b>1,736,928</b>	<b>405,587</b>	<b>9,549,897</b>

\*The fair value of the investments in the Washington State Local Government Investment Pool are the same as the amortized cost of the pool shares.

### 3. Property Taxes

The Clallam County Treasurer acts as an agent to collect property taxes levied for all taxing authorities within the county. The Port District has the same boundaries as Clallam County.

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

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. State law allows for the sale of property for failure to pay taxes. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general governmental services. Washington State Constitution and RCW 84.55.010 limits the growth of regular property taxes to one percent per year, before adjustments for new construction. If the assessed valuation changes, the levy rate will change to maintain the regular levy. For example, if the valuation decreases, the levy rate increases and vice versa. The levy rate is applied to the prior year assessed valuation (AV).

Property Taxes	2017	2016
Regular Levy rate per \$1,000 of AV	\$0.191102	\$0.198653
Assessed Valuation (AV) for prior year	\$7,697,314,552	\$7,318,181,962
Total Regular Levy	\$1,470,970	\$1,453,778

The Port may also levy taxes at less than a one percent per year increase. The difference of what could have been levied with a one percent increase (the highest lawful levy) and the lower amount that the Port levies is considered "banked". The Port has banked capacity because it did not levy the one percent increase in prior years and it has not requested to increase its levy by more than one percent to use its banked capacity.

Banked Capacity	Dec 31, 2017	Dec 31, 2016
Did not levy 1%: 2009, 2010, 2012, 2014, 2017	\$62,654	\$50,606

The amount of banked capacity usually changes each year because the highest lawful levy and the actual levy are recalculated.

Per the Port's bond covenants, the Port agreed to provide information on property tax collections. The entire tax or first half must be made on or before April 30, or else the total amount becomes delinquent on May 1. The second half is payable on or before October 31, becoming delinquent on November 1. The following table shows the tax collection record of the Port.

Year	Taxable Assessed			Amount Collected (including adjustments)			
	Value (AV) Prior Year	Levy Rate per \$1,000 AV	Tax Levy (including adjustments)	Dollars		Percent	
				Year of Levy	As of 12/31/2017	Year of Levy	As of 12/31/2017
2017	7,697,314,552	0.191102	1,469,868	1,450,987	1,435,254	98.7%	97.6%
2016	7,318,181,962	0.198653	1,453,427	1,431,288	1,415,272	98.5%	97.4%

#### 4. Capital Assets and Depreciation

See Note 1 for accounting policies on Capital Assets and Depreciation.

Capital assets activity for the year ended December 31, 2017 was as follows:

<b>Total Capital Assets Not being Depreciated</b>	<b>16,207,909</b>	<b>4,720,051</b>	<b>6,278,020</b>	<b>14,649,940</b>
Capital Assets being depreciated:				
Buildings	19,246,961	61,885	-	19,308,846
Improvements	64,487,520	6,564,302	-	71,051,822
Machinery/Equip	7,123,002	313,366	43,331	7,393,037
<b>Total Capital Assets being Depreciated</b>	<b>90,857,483</b>	<b>6,939,553</b>	<b>43,331</b>	<b>97,753,705</b>
Less: Accumulated Depreciation				
Buildings	9,023,243	476,097	3,327	9,496,013
Improvements	33,175,079	1,689,672	-	34,864,752
Machinery/Equip	4,328,948	355,144	37,998	4,646,094
<b>Total Accumulated Depreciation</b>	<b>46,527,270</b>	<b>2,520,913</b>	<b>41,325</b>	<b>49,006,859</b>
<b>Total Capital Assets being Depreciated less Accum Depr</b>	<b>44,330,213</b>	<b>4,418,640</b>	<b>2,006</b>	<b>48,746,846</b>
<b>Total Net Capital Assets</b>	<b><u>60,538,122</u></b>	<b><u>9,138,691</u></b>	<b><u>6,280,026</u></b>	<b><u>63,396,786</u></b>

\*\*\*Continue on to next page for Capital Assets activity as of December 31, 2016\*\*\*

Capital assets activity for the year ended December 31, 2016 was as follows:

	<b>Dec. 31, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Dec. 31, 2016</b>
Capital Assets not being depreciated:				
Land	12,652,646	-	34,153	12,618,493
Work in Progress	3,890,458	11,807,647	12,108,688	3,589,416
<b>Total Capital Assets Not being Depreciated</b>	<b>16,543,104</b>	<b>11,807,647</b>	<b>12,142,842</b>	<b>16,207,909</b>
Capital Assets being depreciated:				
Buildings	14,702,533	4,544,428	-	19,246,961
Improvements	58,251,433	6,424,795	188,708	64,487,520
Machinery/Equip	6,173,128	964,446	14,572	7,123,002
<b>Total Capital Assets being Depreciated</b>	<b>79,127,094</b>	<b>11,933,669</b>	<b>203,280</b>	<b>90,857,483</b>
Less: Accumulated Depreciation				
Buildings	8,630,715	392,542	14	9,023,243
Improvements	31,799,256	1,540,477	164,654	33,175,079
Machinery/Equip	4,043,880	296,725	11,657	4,328,948
<b>Total Accumulated Depreciation</b>	<b>44,473,851</b>	<b>2,229,744</b>	<b>176,325</b>	<b>46,527,270</b>
<b>Total Capital Assets being Depreciated less Accum Depr</b>	<b>34,653,243</b>	<b>9,703,925</b>	<b>26,955</b>	<b>44,330,213</b>
<b>Total Net Capital Assets</b>	<b><u>51,196,347</u></b>	<b><u>21,511,572</u></b>	<b><u>12,169,796</u></b>	<b><u>60,538,122</u></b>

\*\*\*Continue on to next page for Construction Commitments\*\*\*

**Construction Commitments**

The Port has several active construction projects. At year-end, the Port's commitments with contractors were as follows:

Construction Commitments as of December 31, 2017:

	<b>Project</b>	<b>Spent thru Dec 31, 2017</b>	<b>Remaining Commitment</b>
1	MT T3 Head-tie Dolphin	871,396	40,194
2	MT Stormwater Conveyance	1,519,137	70,071
3	MT T1 Zone 6 Sprinkler Replacement	0	190,050
4	MT Stormwater Treatment Phase 3	177,867	72,403
5	MT T3 Dredging Permitting	77,887	228,338
6	MT T1 Electrical Grounding	76,265	3,518
7	MTA Industrial Park Site Prep - Phase 1	17,555	117,445
8	FIA AIP #34 Master Plan Update	491,728	166,509
9	FIA AIP #35 & #36 Apron	1,509,411	4,165
10	MTIB Phase 2 Improvements	574,244	26,487
11	CMC Fire Alarm Upgrades	89,812	4,143
12	Backflow Valve Replacement	100,465	4,634
13	CMC Fence	6,005	13,995
14	PABH Shore Power Additions	137,249	55,532
15	Tumwater Truck Route - 220 Marine Drive	5,390	7,110
	<b>Total</b>	<b>\$ 5,654,411</b>	<b>\$ 1,004,594</b>

Construction Commitments as of December 31, 2016 were as follows:

	<b>Project</b>	<b>Spent thru Dec 31, 2016</b>	<b>Remaining Commitment</b>
1	MT T1 Redevelopment	5,618,371	243,456
2	MT Security Upgrades	348,478	383,984
3	MT/MTA/LY Stormwater Treatment Phase II	1,406,561	428,345
4	MT T3 Head-tie Dolphin	120,729	20,721
5	MT T1 Electrical Grounding	61,028	48,268
6	MTA Washdown Facility	65,758	108,582
7	FIA AIP #34 Master Plan Update	432,585	229,157
8	FIA AIP #35 & #36 Apron	1,014,481	443,290
9	CMC Fire Supression	30,463	5,798
10	PABH Laundry Facility	18,345	11,479
11	JWM Access & Surveillance Controls	0	17,344
	<b>Total</b>	<b>\$ 9,116,799</b>	<b>\$ 1,940,424</b>

**5. Stewardship, Compliance, and Accountability**

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

**6. Leasing activities**

The Port, as a lessor, enters into operating leases with tenants for the use of a significant portion of industrial and marine terminal land under lease terms of 1 to 30 years. In addition, some properties

are rented on a month to month basis. Port procedure is to negotiate all leases at fair market value, considering market conditions, economic factors, property condition, and location as well as other factors that may impact negotiating lease prices.

The Port currently has approximately 90 lease arrangements ranging in monthly payments between \$1 and \$10,750 with either fixed increases, Consumer Price Index rent escalation clauses, or market rate rent escalation clauses. Approximately 28 percent of the leases include contract terms allowing one to five lease extensions in 1 to 5 year terms.

Minimum future rental revenue on operating leases is as follows:

Dec 31, 2017	Minimum Future Revenue	Dec 31, 2016	Minimum Future Revenue
2018	1,278,800	2017	1,504,448
2019	1,210,050	2018	1,209,834
2020	761,415	2019	1,157,915
2021	489,478	2020	851,990
2022	404,433	2021	428,990
2023-2027	1,345,485	2022-2026	1,259,065
2028-2032	751,811	2027-2031	755,441
2033-2037	697,006	2032-2036	688,798
2038-2042	602,849	2037-2041	595,295
		2042-2046	119,059
<b>TOTAL</b>	<b>\$7,541,328</b>	<b>TOTAL</b>	<b>\$8,570,834</b>

Operating Leases

The Port leases a Canon Copier, a Pitney Bowes Postage Machine, and a Xerox Printer under a non-cancelable operating lease. The future minimum lease payments for these leases are as follows:

Dec 31, 2017	Minimum Future Payments	Dec 31, 2016	Minimum Future Payments
2018	7,148	2017	5,477
2019	7,319	2018	2,861
2020	7,319	2019	-
2021	7,319		
2022	5,884		
2023	854		
<b>Total</b>	<b>\$ 35,843</b>	<b>Total</b>	<b>\$ 8,338</b>

Pitney Bowes lease ends Nov 2018

\*\*\*Continue on to next page for Other Noncurrent Assets\*\*\*

**7. Other Noncurrent Assets: Contracts & Notes Receivables**

Contracts and notes receivable consist of the following:

	Dec 31, 2017	Dec 31, 2016
Rent Repayment Agreement	158,372	46,766
Less: Current portion	<u>17,812</u>	<u>1,838</u>
Rent Repayment Noncurrent portion	\$140,560	\$44,928
<b>Total Noncurrent Contracts &amp; Notes Receivable</b>	<b>\$140,560</b>	<b>\$44,928</b>

- The rent repayment is related to assisting a startup company by delaying the payment of rent for 24 months. Monthly deferred payments are \$8,985 to be repaid over the last 8 years of a 10-year lease. Also a rent adjustment to a tenant lease that will be amortized over the first 8 months of 2018. The amortized payments are \$8,826.

**8. Current Liabilities – Custodial Accounts**

The Port currently has two custodial accounts:

1. The first account reflects the liability for net monetary assets held by the Port in its capacity as a custodian per the Participation Agreement for the Western Port Angeles Harbor (“Group”) signed April 14, 2013 which designates the Port of Port Angeles as the Group’s “Cashier”. The agreement terminates upon receipt of a certification by Department of Ecology that the work under the Agreed Order for the Remedial Investigation and Feasibility Study has been satisfactorily completed (See Note 15. *Pollution Remediation Obligations for more information.*) The Port does not have the authority to make independent decisions with the money for the benefit of the Group. Per the agreement the Cashier’s actions are directed by the voting results of the Group, such as to collect partner contributions and to pay consultant invoices.
2. The second account reflects the liability for net monetary assets held by the Port subject to a court order regarding disbursements of settlement funds related to the K-Ply site. Funds were set aside for the Port by the court to be used to pay ongoing costs related to monitoring the clean-up site. Any funds remaining after the Washington State Department of Ecology determination of no further action required must be returned to K-Ply Insurers.

	Dec 31, 2017	Dec 31, 2016
Western PA Harbor Group Account	\$ 122,286	\$ 382,810
K-Ply Account	\$ 558,412	\$ 705,026

The Custodial Account balance reflects only the share of assets contributed by the external Group participants. It does not reflect the Port’s portion. The balance of funds remaining at the end of the year, are equally split between the other participants. The Port’s contributed share, as well as the other Group participants, is reflected in restricted cash. (See note 15. *Pollution Remediation Obligations for more information.*)

## 9. Accrued Liabilities

These accounts consist primarily of payroll related liabilities (accrued wages, payroll taxes, employee benefits), estimate of current portion of employee leave benefits (vacation, sick), excise taxes (leasehold and business and occupation), bond interest, and other accrued expenses (audit fees, boatyard agency bonus).

	Dec. 31, 2017	Dec. 31, 2016
Payroll, Taxes & Benefits	147,165	183,318
Employee Leave Benefits (current)	50,300	61,900
Excise Taxes (Leasehold, B & O)	130,134	7,849
Bond Interest	24,717	24,717
Other Accrued Expenses	36,000	50,779
<b>Other Accrued Liabilities</b>	<b>\$ 388,316</b>	<b>\$ 328,563</b>

## 10. Long-Term Liabilities

Long-term liabilities activity for the year ended December 31, 2017 was as follows:

	Interest Rate	Year Last Series Matures	January 2017	Additions	Reductions	December 2017	Due Within One Year
<b>General Obligation (GO) Bonds:</b>							
December 2010 - A	7.50	2030	760,000	0	0	760,000	0
December 2010 - B	4.00 - 5.00	2029	3,435,000	0	105,000	3,330,000	110,000
October 26, 2015	2.29	2025	<u>2,957,647</u>	<u>0</u>	<u>297,841</u>	<u>2,659,806</u>	<u>307,099</u>
GO Bonds			<u>\$7,152,647</u>	<u>0</u>	<u>402,841</u>	<u>6,749,806</u>	<u>417,099</u>
(Discount)/Premium			<u>-38,644</u>	<u>0</u>	<u>-2,760</u>	<u>-35,884</u>	<u>-2,760</u>
<b>Long-Term Debt</b>			<b>\$7,114,003</b>	<b>\$0</b>	<b>\$400,081</b>	<b>\$6,713,922</b>	<b>\$414,339</b>

In addition to the above liabilities that are known and measurable, the following estimated liabilities are included in long term liabilities on the Statement of Net Position.

	January 2017	Net Changes Additions (Reductions)	December 2017	Due Within One Year
<b>Estimated Long-Term Liabilities:</b>				
Environmental Remediation	\$ 654,868	\$ (213,305)	\$ 441,563	\$ 339,063
Unearned Revenue - Environmental	657,816	(155,323)	502,493	-
Other Post Employment Benefits	715,803	189,554	905,357	-
Pension Liability	2,464,350	(635,056)	1,829,294	-
Employee Leave Benefits	490,639	22,730	513,369	50,300
<b>Total Estimated Long-Term</b>	<b>\$ 4,983,476</b>	<b>\$ (791,400)</b>	<b>\$ 4,192,076</b>	<b>\$ 389,363</b>

For more information see Note 1 on Employee Leave Benefits, see Note 13 on Other Post Employment Benefit Plans (OPEB), and see Note 15 on Pollution Remediation Obligations.

Long-term liabilities activity for the year ended December 31, 2016 was as follows:

	Interest Rate	Year Last Series Matures	January 2016	Additions	Reductions	December 2016	Due Within One Year
<b>General Obligation (GO) Bonds:</b>							
December 2010 - A	7.50	2030	760,000	0	0	760,000	0
December 2010 - B	4.00 - 5.00	2029	3,435,000	0	0	3,435,000	105,000
May 10, 2012	2.00	2016	475,000	0	475,000	0	0
October 26, 2015	2.29	2025	<u>3,251,350</u>	<u>0</u>	<u>293,703</u>	<u>2,957,647</u>	<u>297,841</u>
GO Bonds			<u>\$7,921,350</u>	<u>0</u>	<u>768,703</u>	<u>7,152,647</u>	<u>402,841</u>
(Discount)/Premium			<u>-31,292</u>	<u>0</u>	<u>7,352</u>	<u>-38,644</u>	<u>-2,760</u>
<b>Long-Term Debt</b>			<b>\$7,890,058</b>	<b>\$0</b>	<b>\$776,055</b>	<b>\$7,114,003</b>	<b>\$400,081</b>

In addition to the above liabilities that are known and measurable, the following estimated liabilities are included in long term liabilities on the Statement of Net Position.

	January 2016	Net Changes Additions (Reductions)	December 2016	Due Within One Year
<b>Estimated Long-Term Liabilities:</b>				
Environmental Remediation	\$ 1,363,618	(708,750)	654,868	315,000
Unearned Revenue - Environmental	\$ -	657,816	657,816	-
Other Post Employment Benefits	567,512	148,291	715,803	-
Pension Liability	2,042,169	422,181	2,464,350	-
Employee Leave Benefits	481,366	9,273	490,639	61,900
<b>Total Estimated Long-Term</b>	<b>\$ 4,454,665</b>	<b>\$ 528,811</b>	<b>\$ 4,983,476</b>	<b>\$ 376,900</b>

For more information see Note 1 on Employee Leave Benefits, see Note 13 on Other Post Employment Benefit Plans (OPEB), and see Note 15 on Pollution Remediation Obligations.

\*\*\*Continue on to next page for General Obligation Debt\*\*\*

### **General Obligation Debt**

The aggregate debt service on general obligation debt as of December 31, 2017 was as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	417,099	277,635	694,734
2019	426,807	266,202	693,009
2020	441,099	254,547	695,646
2021	450,380	242,394	692,774
2022	464,252	229,428	693,680
2023-2027	2,615,169	923,367	3,538,536
2028-2032	1,935,000	251,375	2,186,375
<b>Total</b>	<b>\$6,749,806</b>	<b>\$2,444,948</b>	<b>\$9,194,754</b>

The aggregate debt service on general obligation debt as of December 31, 2016 was as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	402,841	288,655	691,496
2018	417,099	277,635	694,734
2019	426,807	266,202	693,009
2020	441,099	254,547	695,646
2021	450,380	242,394	692,774
2022-2026	2,494,420	1,007,796	3,502,216
2027-2031	2,520,000	396,375	2,916,375
<b>Total</b>	<b>\$7,152,646</b>	<b>\$2,733,604</b>	<b>\$9,886,250</b>

On April 1, 2006, the Port issued \$4,995,000 of Limited Tax General Obligation bonds with coupon rates between 4.00% and 4.75%. Proceeds from these bonds partially funded a major renovation of the Port Angeles Boat Haven. This renovation was completed in 2008. Proceeds were also used to refund bonds that were used for approximately 25 projects in the 1993-1998 Capital Improvement Plan. These bonds were refinanced on October 26, 2015 with the 2015 Refunding LTGO bonds (see below).

On December 22, 2010 the Port issued \$4,195,000 of Limited Tax General Obligation bonds. Proceeds from these bonds were used to expand facilities at the Port's Composite Manufacturing Campus. Bond series A is eligible for a Federal rate subsidy thereby reducing the stated 7.50% interest rates to approximately 3.375%.

On June 1, 2012 the Port issued \$1,830,000 of Limited Tax General Obligation bonds with a coupon rate of 2.00%. Proceeds were used to refund (refinance) series 2002B LTGO bonds (the 2002B bonds were used to refund the callable portion of 1992 LTGO bonds; the 1992 bonds were used for improvements at airports, marinas and waterfront areas as part of the Ports 1993-1995 capital projects). The 2012 refunding resulted in present value savings of approximately \$170,000. The 2012 LTGO matured December 2016.

On October 26, 2015 the Port issued \$3,251,350 of Limited Tax General Obligation bonds with a coupon rate of 2.29%. Proceeds were used to refund (refinance) 2006 LTGO bonds (the 2006 bonds were used to fund a major renovation of the Port Angeles Boat Haven and to refund bonds that were used for approximately 25 projects in the 1993-1998 Capital Improvement Plan). The 2015 refunding resulted in present value savings of approximately \$300,000.

These bonds are subject to federal tax arbitrage regulations. The Port is required to comply with certain requirements of the Internal Revenue Code of 1986, after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The Port's outstanding bond issues qualified for the small issuer exemption with respect to arbitrage rebate. The Port has covenanted in the Bond Resolution to comply with those applicable requirements.

**Limitation of Indebtedness**

Revised Code of Washington (RCW) 39.36 and 53.36 provide that non-voted general obligation debt cannot be incurred in excess of 0.25 percent assessed value of the taxable property in the port district.

	Dec 31, 2017	Dec 31, 2016
Assessed Valuation (AV) for prior year	\$ 7,697,314,552	\$ 7,318,181,962
.75% General Purpose Limit	57,729,859	54,886,365
.25% Non-Voted Limit	19,243,286	18,295,455
Outstanding Non-Voted Debt	6,749,806	7,152,647
<b>Non-Voted Debt Capacity</b>	<b>\$ 12,493,480</b>	<b>\$ 11,142,808</b>

**11. Passenger facility charges**

In 1993, the Commission of the Port of Port Angeles authorized Port management to proceed with application to the Federal Aviation Administration (FAA) for the right to impose passenger facility charges (PFCs) on enplaned passengers at the Port's airport facility. The PFCs generate revenue to be used by the Port for projects eligible under the federal legislation permitting the imposition of PFCs. PFCs collected by the Port are recognized as revenue in the period which they are collected. The Port reinstated PFCs of \$3.00 per passenger, effective September 1, 1996; extension of PFC #3 collections was approved in 1997 for \$105,000; PFC #4 collections was approved in 1998 for \$122,650; PFC #5 collections was approved in 2000 for \$211,683; PFC #6 collections was approved in 2003 for \$313,484; and PFC #7 collections was approved in 2008 for \$191,838; PFC #8 collections was approved in 2012 for \$161,209.

**12. Pension Plans**

**2017**

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 2017:

<i>Aggregate Pension Amounts – All Plans</i>	
Pension liabilities	\$1,829,294
Pension assets	\$ -
Deferred outflows of resources	\$ 272,280
Deferred inflows of resources	\$ (345,589)
Pension expense/expenditures	\$ 174,347))

**State Sponsored Pension Plans**

Substantially all Port of Port Angeles' 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 and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees’ Retirement System (PERS)**

PERS members include elected officials; state 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 services. 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 Fund Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January – June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	%
Administrative Fee	0.18%	0%
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>

July – December 2017		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	0%
Administrative Fee	0.18%	0%
<b>Total</b>	<b>12.70</b>	<b>6.00%</b>

\* Employees participating in the Judicial Benefit Multiplier program had a contribution rate of 12.26%. Employee rate is 6% no matter what the employer's rate is.

The Port's actual contributions to the plan were \$124,196 for the year ended December 31, 2017.

**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) time 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 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 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 CPI), capped at three percent annually and 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 earning 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, that 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 2017 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	Varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July – December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	Varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

\* Employees participating in the Judicial Benefit Multiplier program had a contribution rate of 15.3% for January – June 2017 and 18.45% July – December 2017.

The Port’s actual contributions to the plan were \$174,112 for the year ended December 31, 2017.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016 to June 30, 2017, reflecting each plan’s normal cost (using 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 changes in methods and assumptions since the last valuation.

- For all plans, except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised. Discount Rate

### **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 and 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, PSERS2, SERS2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS1 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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
Total	100%	

### Sensitivity of Net Pension Liability

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.

Port Proportionate Share	1% Decrease	Current Rate	1% Increase
	6.50%	7.50%	8.50%
PERS 1	1,147,585	942,040	763,994
PERS 2/3	2,390,355	887,254	(344,314)

### 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, 2017 the Port reported a total pension liability of \$1,829,294 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	942,040
PERS 2/3	887,254

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	.020859%	.019853%	(.001006%)
PERS2/3	.026696%	.025536%	(.001160%)

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, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2017 the Port recognized pension expense as follows:

	Pension Expense
PERS 1	\$(120,188)
PERS 2/3	\$(54,159)

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

At December 31, 2017, the Port reported deferred outflows of resource and deferred inflows of resources related to pensions for the following sources

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(35,154)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$65,048	\$0
<b>TOTAL</b>	<b>\$65,048</b>	<b>\$(35,154)</b>

<b>PERS 2 &amp; 3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$89,900	(\$29,180)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(236,521)
Changes of assumptions	\$9,424	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$11,050	\$(44,734)
Contributions subsequent to the measurement date	\$96,860	\$0
<b>TOTAL</b>	<b>\$207,234</b>	<b>\$(310,435)</b>

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**PERS 1**

*Combined amortization table (Final)*

<b><u>Year</u></b>	<b><u>Amount</u></b>
2018	\$ (23,762)
2019	\$ 7,502
2020	\$ (1,742)
2021	\$ (17,152)
<b>Total</b>	<b>\$ (35,154)</b>

**PERS 2/3**

*Combined amortization table (Final)*

<b><u>Year</u></b>	<b><u>Amount</u></b>
2018	\$ (94,052)
2019	\$ 20,624
2020	\$ (27,524)
2021	\$ (101,906)
2022	\$ 1,217
Thereafter	\$1,581
<b>Total</b>	<b>\$ (200,061)</b>

**2016**

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:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$2,464,349
Pension assets	\$ -
Deferred outflows of resources	\$ 434,738
Deferred inflows of resources	\$ (47,338)
Pension expense/expenditures	\$ 267,166

Substantially all Port of Port Angeles 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 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 and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees’ Retirement System (PERS)**

PERS members include elected officials; state 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 services. 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 Fund 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

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	.18%	0%
<b>Total</b>	<b>11.18%</b>	<b>6%</b>

\* Employees participating in the Judicial Benefit Multiplier program had a contribution rate of 12.26%

The Port's actual contributions to the plan were \$121,608 for the year ended December 31, 2016.

**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) time 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 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 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 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 CPI), capped at three percent annually and 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 earning 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 rate 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, that 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:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	0
Administrative Fee	0.18%	0
Employee PERS Plan 3	0	Varies
<b>Total</b>	11.18%	6.12%

\* Employees participating in the Judicial Benefit Multiplier program had a contribution rate of 15.3%.

The Ports actual contributions to the plan were \$158,830 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 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.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

## 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 and 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, PSERS2, SERS2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS1 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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
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%
	<b>100%</b>	

### Sensitivity of Net Pension Liability

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.

Port Proportionate Share	1% Decrease	Current Rate	1% Increase
	6.50%	7.50%	8.50%
PERS 1	1,350,881	1,120,227	921,735
PERS 2/3	2,474,771	1,344,123	(699,693)

### 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 \$2,464,350 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	1,120,227
PERS 2/3	1,344,123

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.020741%	.020859%	(.000118%)
PERS2/3	.026790%	.026696%	(.000094%)

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 Non-employer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, 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	68,919
PERS 2/3	198,247

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016 the Port reported deferred outflows of resource and deferred inflows of resources related to pensions for the following sources

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$-	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$- 28,206	\$0
Changes of assumptions	\$-	\$-
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$59,686	
TOTAL	\$87,892	\$0

PERS 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$71,574	\$(44,372)
Net difference between projected and actual investment earnings on pension plan investments	\$164,482	\$0
Changes of assumptions	\$13,893	\$- 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$18,943	\$2,966
Contributions subsequent to the measurement date	\$77,955	\$0
TOTAL	\$346,846	\$(47,338)

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:

**PERS 1**

*Combined amortization table (Final)*

<b><u>Year</u></b>	<b><u>Amount</u></b>
2017	\$ (6,945)
2018	\$ (6,945)
2019	\$ 25,904
2020	\$ 16,191
<b>Total</b>	<b>\$ 28,205</b>

**PERS 2/3**

*Combined amortization table (Final)*

<b><u>Year</u></b>	<b><u>Amount</u></b>
2017	\$ 7,895
2018	\$ 7,895
2019	\$127,995
2020	\$ 77,769
<b>Total</b>	<b>\$221,554</b>

**Nongovernmental Plans (Pension Provided through certain Multiple-Employer Defined Benefit Pension Plans)**

Some port employees may be provided with pensions through a cost-sharing, multiple-employer defined benefit pension plan that, (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions to both employees of state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The port has one union sponsored pension plan meeting these criteria. As of December 31, 2017, the nongovernmental plan is composed of the following:

**Western Conference of Teamsters Pension Plan**

Port of Port Angeles' three accounting clerks participate in Western Conference of Teamsters Pension Plan administered by Western Conference of Teamsters Pension Trust, under a cost-sharing multiple-employer pension plan pursuant to a collective-bargaining agreement between Port of Port Angeles and Teamsters Local 589. The current agreement expires May 31, 2018.

Western Conference of Teamsters Pension Plan (WCT) issues Audited Financial Statements that include financial and required supplementary information annually. The Audited Financial Statements may be downloaded from the WCT website at [www.wctpensions.org](http://www.wctpensions.org).

Western Conference of Teamster Pension Plan provides retirement, disability, death and survivor benefits. There are three options for retirement benefit payments.

#### Regular Employee & Spouse Pension

Monthly benefit for participant's lifetime reduced to provide benefit to participants spouse after participant dies. Spouse receives lifetime benefit thereafter of 66 2/3% of participants benefit if participant has recent coverage, otherwise 50%.

#### Optional Employee and Spouse Pension

Monthly benefit for participant's lifetime reduced to provide benefit to participants spouse after participant dies. Spouse receives lifetime benefit thereafter of 75% of participants benefit.

#### Life Only Pension

Monthly benefit for participant's lifetime only.

#### Contributions

Pension contribution rates are determined by participants in the plan. Currently plan participants contribute \$1.75 per hour worked up to a maximum of 2080 hours per year. Rates can be increased by majority vote of the participants.

For the year ended December 31, 2017 Participants contributed \$10,892 to the plan.

Withdrawal from the WCT Pension plan requires submitting a Request for Estimate of Potential Withdrawal Liability Form to the Pension Administrative Office.

### **13. Other Post-Employment Benefit (OPEB) Plans**

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

As per the GASB Statement No. 45 Summary, "In addition to pensions, many state and local governmental employers provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."

#### **Plan Description**

The Port provides medical, dental, life, and long-term disability insurance to its employees and Commissioners through the Washington State Public Employees Benefit Board (PEBB). Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Other post-employment benefits (OPEB) are benefits provided to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. PEBB offers retirees access to all of these benefits. However, PEBB employers provide monetary assistance, or subsidies, only for medical, prescription drug, life, and vision insurance.

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan

members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504-0914 or it may be downloaded from the Office of the State Actuary website at <http://osa.leg.wa.gov>.

### **Subsidies**

The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount for a specific group of people. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually.

The implicit subsidy, set up under RCW 41.05.022, is more complex because it is not a direct payment from the employer on behalf of the member. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retirees.

Before 2012, these subsidies were not projected and accounted for under accrual basis accounting. Accrual accounting is meant to match the timing between when something occurs and when it is accounted for. In this case, it is meant to match the expense to the year in which the benefits are earned by the member.

### **Funding Policy**

Pay-as-you-go funding occurs when an employer chooses to contribute (pay) for benefits only when they occur or become due (after retirement). Before 2012, this cost was expensed as the Port paid the current year's subsidies. However, the unfunded liability, which is the difference between what the Port accrues (assuming on-going future payments) and what the Port currently pays, was growing and was not accounted for under the pay-as-you-go method.

GASB Statements No. 43 (*Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*) and 45 (*Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*) are related and were created in an attempt to:

- Create financial transparency.
- Create better alignment between public and private sector accounting.
- Provide clarity among bargaining groups to show the true cost of benefits over time.
- Provide employers knowledge of the true cost of benefits over time.
- Provide investors knowledge of the true long-term liabilities.
- Show the decision makers a cost that they need to recognize.

The Port funds the implicit and explicit subsidies on a pay-as-you-go basis, meaning that Port pays these costs as they occur or become due.

**Annual OPEB Cost and Net OPEB Obligation**

The Port's annual other post-employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB. The net OPEB obligation is included as a noncurrent liability in the Statement of Net Position.

			Fiscal Year Ending Dec 31, 2017
<b>Determination of the Annual Required Contribution:</b>			
Normal cost at Year End			117,882
Amortization of Unfunded Actuarial Accrued Liability			123,404
Annual Required Contribution			241,286
<b>Determination of the Annual OPEB Cost:</b>			
Annual Required Contribution			241,286
Net OPEB Obligation Interest			28,632
Net OPEB Obligation Amortization			(41,395)
Annual OPEB Cost			228,523
<b>Determination of the Net OPEB Cost:</b>			
Starting Net OPEB Obligation			715,804
Annual OPEB Cost			228,523
Contributions			(38,969)
Net OPEB Obligation			905,358

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions	Contribution as a % of OPEB Cost	Net OPEB Obligation
12/31/2017	\$228,523	\$38,969	17.05%	\$905,358

**Funded Status and Funding Progress**

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. Even if the Port left the PEGB program, the Port would not be able to get the money out of the trust.

Fiscal Year Ended	Funded Status Amount	Funded Status Percent
12/31/2017	\$0	0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual

revision as actual results are compared with past expectations and new estimates are made about the future. The following supplementary information will present multi-year trend information as it becomes available, which will show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

### **Actuarial Methods and Assumptions**

We used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.40 was assumed for all active members to determine the Actuarial Accrued Liabilities (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2015 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2015. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligations (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

As per the GASB Statement No. 45 Summary, "In addition to pensions, many state and local governmental employers provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."

### **Plan Description**

The Port provides medical, dental, life, and long-term disability insurance to its employees and Commissioners through the Washington State Public Employees Benefit Board (PEBB). Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Other post-employment benefits (OPEB) are benefits provided to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. PEBB offers retirees access to all of these benefits. However, PEBB employers provide monetary assistance, or subsidies, only for medical, prescription drug, life, and vision insurance.

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504-0914 or it may be downloaded from the Office of the State Actuary website at <http://osa.leg.wa.gov>.

### **Subsidies**

The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare

eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount for a specific group of people. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually.

The implicit subsidy, set up under RCW 41.05.022, is more complex because it is not a direct payment from the employer on behalf of the member. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retirees.

Before 2012, these subsidies were not projected and accounted for under accrual basis accounting. Accrual accounting is meant to match the timing between when something occurs and when it is accounted for. In this case, it is meant to match the expense to the year in which the benefits are earned by the member.

### **Funding Policy**

Pay-as-you-go funding occurs when an employer chooses to contribute (pay) for benefits only when they occur or become due (after retirement). Before 2012, this cost was expensed as the Port paid the current year's subsidies. However, the unfunded liability, which is the difference between what the Port accrues (assuming on-going future payments) and what the Port currently pays, was growing and was not accounted for under the pay-as-you-go method.

GASB Statements No. 43 (*Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*) and 45 (*Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*) are related and were created in an attempt to:

- Create financial transparency.
- Create better alignment between public and private sector accounting.
- Provide clarity among bargaining groups to show the true cost of benefits over time.
- Provide employers knowledge of the true cost of benefits over time.
- Provide investors knowledge of the true long-term liabilities.
- Show the decision makers a cost that they need to recognize.

The Port funds the implicit and explicit subsidies on a pay-as-you-go basis, meaning that Port pays these costs as they occur or become due.

**Annual OPEB Cost and Net OPEB Obligation**

The Port's annual other post-employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB. The net OPEB obligation is included as a noncurrent liability in the Statement of Net Position.

<b>Fiscal Year Ending Dec 31, 2016</b>	
<b>Determination of the Annual Required Contribution:</b>	
Normal cost at Year End	\$81,162
Amortization of Unfunded Actuarial Accrued Liability	122,069
Annual Required Contribution	203,234
<b>Determination of the Annual OPEB Cost:</b>	
Annual Required Contribution	203,231
Net OPEB Obligation Interest	22,700
Net OPEB Obligation Amortization	(32,819)
Annual OPEB Cost	193,112
<b>Determination of the Net OPEB Cost:</b>	
Starting Net OPEB Obligation	567,512
Annual OPEB Cost	193,112
Contributions	(44,821)
Net OPEB Obligation	\$715,803

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan and the net OPEB obligation were as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Contributions</b>	<b>Contribution as a % of OPEB Cost</b>	<b>Net OPEB Obligation</b>
12/31/2016	\$193,112	\$44,821	23.21%	\$715,803

**Funded Status and Funding Progress**

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. Even if the Port left the PEBS program, the Port would not be able to get the money out of the trust.

<b>Fiscal Year Ended</b>	<b>Funded Status Amount</b>	<b>Funded Status Percent</b>
12/31/2016	\$0	0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual

revision as actual results are compared with past expectations and new estimates are made about the future. The following supplementary information will present multi-year trend information as it becomes available, which will show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

**Actuarial Methods and Assumptions**

We used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.40 was assumed for all active members to determine the Actuarial Accrued Liabilities (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2015 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2015. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligations (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

\*\*\*Continue on to next page for Risk Management\*\*\*

#### 14. Risk Management

The Port maintains commercial insurance coverage against most normal hazards:

Type of Coverage	Limit	Aggregate Limit	Deductible	Comments
General Liability	\$1,000,000	\$3,000,000	\$10,000	
Commercial Auto Liab.	\$1,000,000	N/A	None	
Excess Liability	49,000,000	N/A	None	Over 1 <sup>st</sup> \$1 million of Loss
Airport Liability	\$20,000,000	\$20,000,000	None	Aggregate applies to Products/Completed, Operations and Personal & Advertising Injury and the Extended Coverage Endorsement
Commercial Property – All Other Perils	\$1,000,000,000	N/A	\$25,000	
Commercial Property – Flood	\$50,000,000	\$50,000,000	\$100,000 or \$250,000	Deductible depends on Flood Zone
Commercial Property – Earthquake	\$50,000,000	\$50,000,000	5% with a minimum \$100,000	
Commercial Property – Boiler & Machinery Equip Breakdown	\$100,000,000	N/A	\$10,000	
Cyber – Info Security & Privacy Liability	3 <sup>rd</sup> party limit of \$2,000,000	\$2,000,000	\$50,000	Aggregate for all coverages combined but sublimited to all Cyber classifications below
Cyber – Privacy Notification	3 <sup>rd</sup> party limit of \$500,000	\$500,000	\$50,000	Limit is \$1,000,000 if use Beazley vendor services
Cyber – Website Media Content Liability	3 <sup>rd</sup> party limit of \$2,000,000	\$2,000,000	\$50,000	
Cyber – Penalties for Regulatory Defense and Penalties	3 <sup>rd</sup> Party Limit of \$2,000,000	\$2,000,000	\$50,000	
Cyber – Extortion	\$2,000,000	\$2,000,000	\$50,000	First Party Computer Security
Cyber – Data Protection Loss and Business Interruption Loss	\$2,000,000	\$2,000,000	\$50,000	First Party Computer Security
Public Officials’ Liability	\$5,000,000	\$5,000,000	\$25,000	
Blanket Fidelity Bond	\$2,000,000	N/A	\$2,500 per claim	Covers all employees to include Faithful Performance of Duty
Hull & Machinery for owned Watercraft	\$15,000 to \$80,000	N/A	\$1,000 to \$2,500	per Schedule of owned watercraft; varies based on value of boat
Protection & Indemnity for owned Watercraft	\$1,000,000	N/A	\$5,000	For owned watercraft

Type of Coverage	Limit	Aggregate Limit	Deductible	Comments
Storage Tank Pollution Liability	\$1,000,000	\$1,000,000	\$10,000	
Foreign Liability	\$1,000,000	\$4,000,000	\$500 to \$1,000	Covers General, Auto and Employers Liability

The Port is self-insured for unemployment insurance coverage. The Port has reserved \$5,321 to cover the estimated average annual cost based on a review of claims over a 10 year period.

The Port provides medical, vision, dental, life, and long-term disability insurance coverage for ILWU Local 27 and non-represented employees through standard plans offered through the State of Washington and for Teamsters Local 589 employees through the Teamsters Welfare Trust. The Port does not administer any of these plans.

The Port has not entered into any insurance settlements in the last three years which exceeded insurance coverage.

#### 15. Pollution Remediation Obligations

The Port of Port Angeles is subject to laws and regulations relating to the protection of the environment. The Port's policy is to accrue environmental and cleanup related costs when it is both probable that a liability has been incurred and when the amount can be reasonably estimated.

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49 (GASB 49), "Accounting and Financial Reporting for Pollution Remediation Obligations." GASB 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB 49 identifies five distinct "obligating events" that require the Port to disclose the potential future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the Port documents the components of expected pollution remediation outlays that are reasonably estimable. The Port then determines if some or all of the future outlays are subject to capitalization under GASB 49 and records those expenditures accordingly.

At this time, the Port has determined that future investigation and cleanup costs associated with the following four sites constitute the Port's pollution remediation obligations. The sites require investigation and potential remediation in order to comply with state environmental laws and regulations. Investigation costs are currently reimbursed under older commercial general liability policies. Future cleanup costs are subject to negotiations and litigation.

Although investigation costs for the three of the four sites are currently being reimbursed under older commercial general liability policies, the Port disagrees with the insurance carrier's characterization of those benefits. In January 2015 the Port filed a law suit against the insurance carriers seeking (1) contract damages based on the defense and indemnification provisions of the liability insurance policies, (2) adjudication of respective rights, duties and obligations of the parties under the liability insurance policies, and (3) costs for bringing the action.

\*\*\*Continue on to next page for Amount of Estimated Liability\*\*\*

**Amount of Estimated Liability**

Net of Related Insurance and Potentially Liable Person (PLP) Recoveries

	<b>Basis of Obligation for 2016 and 2017</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
Marine Trades Area	<p><b>2017:</b> Engineering and consultant estimates for remediation and monitoring (2018-2022) of \$2,501,400, offset by anticipated recoveries of \$2,501,400.</p> <p><b>2016:</b> Engineering and consultant cost estimates (2017-2021) of \$1,687,360, offset by anticipated recoveries of \$1,607,492.</p>	0	\$ 79,868
K-Ply Site	<p><b>2017:</b> Funding provided by insurance and PLPs for ground water monitoring program and periodic soil monitoring.</p> <p><b>2016:</b> Cleanup complete and the Port has been reimbursed for all expenses by insurance and other liable parties. Funding also provided for anticipated monitoring costs over the next 10 years.</p>	\$ 0	\$ 0
Western Harbor Area <sup>1</sup>	<p><b>2017:</b> Engineering and consultant cost estimates for investigation and development of a remediation plan (2018-2022) of \$250,000 of Port cost, offset by anticipated recoveries of \$200,000.</p> <p><b>2016:</b> Engineering and consultant cost estimates (2017-2021) of \$250,000 of Port cost, offset by anticipated recoveries of \$200,000.</p>	\$ 50,000	\$ 50,000
Former Kardlock Facility	<p><b>2017:</b> Consultant cost estimates for investigation, remediation and monitoring (2018-2022) of \$745,000 offset by anticipated recoveries of \$698,437.</p> <p><b>2016:</b> Consultant cost estimates (2017-2021) of \$5,000</p>	\$ 46,563	\$ 5,000
Program-wide	<p><b>2017:</b> Litigation cost estimates (2018-2022) of \$345,000, offset by anticipated recoveries included above with each site.</p> <p><b>2016:</b> Litigation cost estimates (2017-2021) of \$520,000, offset by anticipated recoveries included above with each site.</p>	\$ 345,000	\$ 520,000
<b>Total</b>		<b>\$ 441,563</b>	<b>\$ 654,868</b>

<sup>1</sup> Western Port Angeles Harbor: As of December 31, 2016 and December 31, 2017 information on a proposed cleanup remedy for the Western Harbor Area site was not available or reasonably determinable. The Port estimated completion of the RI/FS (Remedial Investigation/Feasibility Study) and ongoing pollution monitoring liability as a minimum obligation.

### Summary of Environmental Sites

Site	Ownership	PLPs per Ecology	Recoveries	Timing
Marine Trades Area (MTA)	Port of PA  Westport ( <i>Port sold part of the property but retained liability</i> )  Pettit Oil ( <i>In 2014 Pettit Oil underwent bankruptcy. Chevron, as the former owner, will address the contamination for this part of the site.</i> )	Port of PA  ARCO  Chevron	Insurance, named PLPs, potential of other unnamed PLPs	2013: Completed RI/FS and DCAP  2014-2017: Ecology reviewed DCAP  2017-2019: Approval and implementation of CAP  2019-2020: Operating costs of CAP
K-Ply Site	Port of PA	Port of PA  Rayonier ( <i>see DE 90-S255</i> )  ExxonMobil	Insurance  Grant funds  PLPs	2014: Draft RI/FS & DCAP  2015-2016: Approval and implementation of CAP  2017-2027: Monitoring costs of CAP
Western Harbor Area	State Dept of Natural Resources (DNR)	Port of PA  City of PA  Nippon Paper  Merrill & Ring  Georgia Pacific  Owens Corning  WA DNR	Insurance, named PLPs, potential of other unnamed PLPs	2018-2019: Draft RI/FS and approval  2018-2020: monitoring until CAP is defined
Former Kardlock Facility	Port of PA	Port of PA  Shell	Shell and Port will work to determine other PLPs	2016: Sampling  2017: List site with State and notify site PLPs  2018-2019: Conduct additional sampling and enter into AO with Department of Ecology

*PLP is an abbreviation for Potentially Liable Person  
RI/FS is Remedial Investigation/Feasibility Study  
DCAP is Draft Cleanup Action Plan  
CAP is Cleanup Action Plan*

In addition to insurance, the Port intends to aggressively pursue past site operators and former tenants whether or not they are named as a PLP. The Port also intends to apply for State Department of Ecology grant funds.

**Methodology for Amount of Estimated Liability**

The pollution remediation obligation is an estimate subject to changes resulting from price increases or reductions, technology, or changes in applicable laws and regulations. The Port calculates the amounts of expected recoveries on a site by site basis and reduces its gross liability by the expected value of realized and realizable recoveries. Recoveries through future grant funds that are on a cost-reimbursement basis are excluded from recovery calculations since the grant conditions cannot be met until the costs are incurred (per GASB 33).

The Port worked with financial and environmental consultants to identify and document the status of the current GASB 49 pollution remediation obligations. For each site, the following costs and recoveries were estimated:

- Costs by environmental consultants and attorneys for remedial investigation and feasibility study (Kardlock and Western Harbor sites).
- Costs by environmental consultants and attorneys for draft cleanup plan (Western Harbor and Kardlock sites).
- Costs by environmental consultants and attorneys for anticipated cleanup plan (Marine Trades Area and Kardlock sites).
- Recoveries by a consortium of Port general liability insurance carriers (Marine Trades, K-Ply, and Western Harbor sites).
- Recoveries through cost allocation payments by other parties (PLPs) directly to consultants (Marine Trades Area, Western Harbor Area and Kardlock).
- Grant reimbursements by Department of Ecology for costs incurred, but not future costs.

As per GASB 49, “Estimates of a pollution remediation liability should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays due to, for example, changes in the remediation plan or operating conditions. These changes may include the type of equipment, facilities, and services that will be used, price increases or reductions for specific outlay elements such as ongoing monitoring requirements, changes in technology, and changes in legal or regulatory requirements.”

The Port evaluates its pollution remediation obligations by updating both forecasts for future outlays as well as recoveries on at least an annual basis and when benchmark events occur.

**Summary of Next Benchmark Events**

Site	Anticipated Benchmark Event
Marine Trades Area	Acceptance by Ecology of draft cleanup plan (expected in 2018).
K-Ply Site	Five-year Ecology site review in 2021.
Western Harbor Area	Acceptance by Ecology of remedial investigation/feasibility study (expected in mid-2019).
Former Kardlock Facility	Sign an administrative order with Ecology in 2019.

## **Nature and Source of Pollution Remediation Obligations**

### Marine Trades Area

Before the 1920s, the site contained several small wood mills. From the 1920s to 1989, uses included bulk fuel plants, fuel pipelines, log storage, logging truck repair, retail grain supply store, undersea cable saline cure tanks, ship repair, and railroad lines. Chevron, ARCO (Atlantic Richfield Company), Shell and other companies operated or supplied bulk fuel plants. Over the years, fuel pipelines were built and abandoned or removed on parts of the site.

In 2005, the Port along with Chevron entered into an agreed order with the Department of Ecology (DE 5738) to conduct a site investigation to define the extent of contamination at the property. ARCO agreed to fund a share of the work under the agreed order. Based on what was known at the time, the site included the Marine Trades Area (MTA), former Pettit Oil site (Chevron as the liable party), and K-Ply properties. As a result of the site investigation, it was determined that two separate plumes of contamination with separate and distinct sources existed within the MTA. An amendment to the agreed order was issued on June 26, 2013 that separated the western area of contamination as the MTA site (including former Pettit Oil site). The contamination in the eastern area of the site, which was the K-Ply mill site, was addressed in a new, separate agreed order with Department of Ecology (DE 9546).

In August 2013, the Final Remedial Investigation/Feasibility Study was accepted by Ecology. Then in December 2013, a Draft Cleanup Action Plan (DCAP) was submitted to Ecology. Ecology provided their comments in the form of the Ecology Draft DCAP to the MTA Group in February 2018. The MTA Group is currently reviewing this document and will provide feedback to Ecology in late 2018.

### K-Ply Site

The Port submitted a Draft Public Review RI/FS and Draft CAP to Ecology in November 2014. On May 19, 2015, the Port entered into an agreement order with Ecology (No. DE 11302), that required the implementation of the CAP. The cleanup of the K Ply site began in August of 2015, but was halted in November 2015 due to heavy rain. The cleanup and back filling of the site was completed in May of 2016. In 2017, Ecology approved the Construction Completion Report and the Port recorded an environmental covenant at the site. Currently the Port is conducting semi-annual groundwater monitoring at the site with quarterly status reports to Ecology. The next milestone will be in the five-year Ecology site review in 2021.

### Western Harbor Area Site

The Port owns or formerly owned properties where Fibreboard Corporation and Merrill & Ring operated facilities and released hazardous substances that have become sources of contamination. The Port owns and operates the Boat Haven marina where hazardous substances have been identified. Under a Port Management Agreement, the Port also leases and manages state-owned aquatic lands at the site to facilitate Port operations.

Historically, a number of mills and timber-related industries released wood debris (logs, large and small wood pieces, and pulp-like materials) in the harbor. Additionally, hazardous substances, including metals and dioxin, have resulted in areas of sediment contamination in the nearshore which create chemical plumes spreading throughout the western harbor. The sources of contamination occurred from multiple potentially liable parties (PLPs):

- Georgia Pacific, through a series of mergers and acquisitions is the successor of interest to the owner or operator of a paper mill that released or disposed of hazardous substances. They also leased aquatic lands to facilitate operations.
- Nippon Paper Industries USA is the former owner and operator of a paper mill and lagoon which is connected by a channel to the harbor. Nippon also leased aquatic lands for its operations. Nippon was sold to McKinley Paper in March 2017.
- Merrill & Ring was the owner and operator of a lumber mill facility and conducted operations on its property and on property leased from the Port. Merrill & Ring also leased aquatic lands for its operations.

- City of Port Angeles has operated eleven combined sewer overflow (CSO) discharge points that discharged untreated wastewater and stormwater directly into the harbor.
- Owens Corning, through a series of acquisition and restructurings, is the successor of interest to the Fibreboard Corporation which owned and operated a mill that released or disposed of hazardous substances. They also leased aquatic lands to facilitate operations.

On May 28, 2013, the Port, along with Georgia Pacific, Nippon Paper, Merrill & Ring and the City of Port Angeles entered into agreed order DE 9781 with the Washington State Department of Ecology (Ecology). The agreed order requires investigation of sediments and identification of ongoing upland sources of contamination that have the potential to result in sediment recontamination at levels greater than prospective sediment cleanup standards.

On April 14, 2013 the Port entered into an agreement with other potentially liable persons (PLPs) as identified by Washington Department of Ecology under the Washington Model Toxics Control Act (MTCA) to form the Western Port Angeles Harbor Group (the "Group"). This agreement created a process for funding the costs of work incurred after February 26, 2013 pursuant to an Agreed Order DE 9781 for a Remedial Investigation/Feasibility Study (RI/FS) in the Western Port Angeles Harbor site. The work includes an environmental assessment, testing, consulting and other professional services with respect to environmental evaluation, management and remedy selection (but not actual remediation). In the summer of 2013 the group began the Remedial Investigation of the Western Harbor.

Each participant is responsible for an equal 25% share of Group costs (Nippon and Merrill & Ring are considered as one participant for funding). All costs paid by the participants under the agreement are subject to reallocation in a subsequent proceeding. The Group account is administered by the Port of Port Angeles, which is acting as the Group cashier. All funds contributed to the Group account are classified as restricted funds. The Port holds the other participants funds in a custodial capacity. The Port records its share of the costs as a transfer to a restricted fund and recognizes an expense when the invoice is presented for payment.

The Port of Port Angeles, as Group Cashier, is responsible for (i) managing the Group Account ; (ii) sending out assessments to each Participant for its share of Group Remedial Costs; (iii) sending out a current ledger of the Group Account to each Participant prior to each vote on further assessments of Group Remedial Costs; (iv) making deposits; (v) signing checks for the payment of Group Remedial Costs; (vi) sending default notices for non-payment; and (vii) such other duties as the Participants may delegate. The Group agreement does not create a partnership or joint venture and/or a principal and agent relationship between or among the Participants or their representatives, because the purposes and actions of the Group are specifically limited to payment of authorized costs pursuant to Agreed Order DE 9781. The Group Agreement will automatically terminate upon receipt of a certification by Ecology that the "work" under Agreed Order DE 9781 has been satisfactorily completed. The Agreed Order identifies a completion date of the work as December 2014. Ecology approved the extension based on a series of technical data submissions and review periods. These technical data submissions took the form of a "White Paper" submitted to the Ecology by the Group in May 2014. This White Paper provided an overview of the Groups understanding of cleanup levels, remediation levels and sediment management areas. Since 2014 Ecology has reviewed and provided comments on the White Paper that corresponds with the public release of the Ecology Final North Olympic Peninsula Regional Background Report in February 2016 and Sediment Cleanup User's Manual II in March 2016. Ecology provided final comments on the White Paper in August 2017 and the Group submitted the Draft RI/FS to Ecology in April 2018. It is anticipated that Ecology will provide comments on the Draft RI/FS in the summer of 2018.

The Group contributions and share of costs were as follows:

	Dec 31, 2017	Dec 31, 2016
Other PLP Beginning Balance	382,810	198,517
Other PLP Contributions	415,027	353,797
Other PLP Share of Group Costs	(675,551)	(169,504)
Ending Balance of Other PLP	122,286	382,810
Port Beginning Balance	125,024	66,172
Port Contribution	74,623	115,353
Port Share of Group Costs	(169,075)	(56,501)
Ending Balance of Port	30,572	125,024
<b>Total Group Ending Balance</b>	<b>\$ 152,858</b>	<b>\$ 507,834</b>

In August 2013 the Port received notification of Natural Resource Damages Claim being sought by Port Angeles Harbor Natural Resource Trustee Council (Trustees). The Trustees are the National Oceanic and Atmospheric Administration (NOAA) of the U.S. Department of Commerce, the United States Fish and Wildlife Service of the U.S. Department of Interior (USFWS), the Washington Department of Ecology (Ecology), the Lower Elwha Klallam Tribe, the Port Gamble S'Klallam Tribe, and the Jamestown S'Klallam Tribe. On May 1, 2014 the Port received a proposed natural resource damage assessment from the Trustees. Their assessment provided a range of damages for the entire harbor (approximately 2,100 acres) from 508 to 1,323 discounted service acre years (DSAYs). The Port as one member of the Western Port Angeles Harbor Group (Group) is evaluating the Trustees claim. The amount of liability, if any, and actual damages is undeterminable at this time. Effective February 15, 2016 the Group entered into a tolling agreement with the Trustees to facilitate possible future settlement negotiations. The tolling agreement does not constitute or imply any admission or acknowledgement of any fact, conclusion of law, or liability by any Party.

Former Kardlock Facility

The Port owns the property at 220 Marine Drive known at the Former Kardlock Facility. This site is located to the east of Tumwater Creek, and approximately 1,000 feet inland (south) of the Port Angeles Harbor. The adjacent property to the north is a Pettit Oil facility (a former Chevron bulk plant) that is part of the larger Marine Trades Area petroleum cleanup site. The property is currently utilized for parking, and was formerly occupied by a Shell Oil bulk plant on its central and western portions and a Pettit Oil Kardlock station on its eastern portion. Approximately six aboveground storage tanks (ASTs) and an associated refueling rack and pump house owned by Shell were removed from the center of the property in 1984. It is assumed that the bulk terminal handled gasoline, diesel fuel, and other common petroleum products. Five additional gasoline and diesel underground storage tanks (USTs) and related fueling equipment were removed from the east side of the property by Pettit Oil in 1999. Pettit Oil also removed approximately 2,400 tons of petroleum contaminated soil from the property as part of tank removal; however, some diesel range organics (DRO) contamination remained in soil to the north of the former USTs. A limited number of soil borings were also advanced in the alleyway between the Marine Trades Area Pettit Oil property and the Shell Oil bulk plant, as well as on the bulk plant property, by Shannon & Wilson as part of the Marine Trades Area investigation in 1995. One permanent monitoring well, MW 5, was also installed on the property. This investigation identified gasoline range organics (GRO) contamination in soil and groundwater at one monitoring well along the northern boundary of the Shell Oil bulk plant, in the presumed downgradient direction from the former ASTs. The contamination from the Shell Oil bulk plant was not considered to have comingled with downgradient contamination emanating from the other Marine Trades Area facilities, so was not included in the Marine Trades Area site.

Because of the past activities at the site the Port conducted soil and groundwater sampling at the property in March of 2016. The results of these sampling detailed separate areas of soil and groundwater petroleum contamination at the former Shell Oil bulk plant location and the former Pettit Oil Kardlock location.

Following final review of 2016 sampling data the Port notified Ecology and Ecology listed the property as a distinctive cleanup site. Ecology listed the initial PLP's as the Port and Shell. In May of 2018, the Port and Shell conducted additional site investigation sampling at the site to further delineate the extent and magnitude of contamination. The reporting detailing the findings of this investigation is expected to be completed in the summer of 2018.

## **16. Contingencies**

The Port is a defendant in various legal actions and claims, which arise during the normal course of business, some of which may be covered by insurance. Final disposition of these actions and claims are not determinable and, in the opinion of management, the outcome of any litigation of these matters, except as discussed under Note 15 Pollution Remediation Obligations, will not have a material effect on the financial position or results of operations of the Port.

As discussed in Note 15, the Port is liable for pollution remediation obligations.

The Port participates in a number of Federal and State assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursements to grantor agencies for expenses disallowed under the terms of the grants. Port management believes that such disallowances, if any, will be immaterial.

## **17. Other Disclosures**

**REQUIRED SUPPLEMENTAL INFORMATION**

Other Postemployment Benefits  
Schedule of Funding Progress

<b>Fiscal Year Ended</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liabilities</b>	<b>Unfunded Actuarial Accrued Liabilities (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
12/31/2017	\$0	\$ 2,133,909	\$ 2,133,909	0%	\$ 2,533,194	84%
12/31/2016	\$0	\$ 2,110,818	\$ 2,110,818	0%	\$ 2,549,431	83%
12/31/2015	\$0	\$ 2,159,058	\$ 2,159,058	0%	\$ 2,414,007	89%
12/31/2014	\$0	\$ 1,507,940	\$ 1,507,940	0%	\$ 2,619,056	58%

\*\*\*Continue on to next page for Passenger Facility Charges\*\*\*

**PORT OF PORT ANGELES**  
 Required Supplemental Information  
 December 31, 2017

The Port of Port Angeles is presenting Required Supplemental Information (RSI) to meet the minimum financial reporting requirements and is an integral part of the accompanying financial statements. RSI general includes schedules, statistical data, and other information.

Port of Port Angeles Schedule of Employer Contributions Department of Retirement Systems PERS 1 As of December 31, 2017 Last 10 Fiscal Years*			
	2015	2016	2017
Statutorily or contractually required contributions	\$ 59,282	\$ 121,608	\$ 124,196
Contributions in relation to the statutorily or contractually required	\$ (59,282)	\$ (121,608)	\$ (124,196)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$ 2,414,007	\$ 2,549,431	\$ 2,533,194
Contributions as a percentage of covered employee payroll	2.46%	4.77%	4.90%
Notes to Schedule:			
*Until a full 10-year-trend is compiled, governments should present information only for those years for			
Port of Port Angeles Schedule of Employer Contributions Department of Retirement Systems PERS 2 & 3 As of December 31, 2017 Last 10 Fiscal Years*			
	2015	2016	2017
Statutorily or contractually required contributions	\$77,427	\$158,829	\$174,112
Contributions in relation to the statutorily or contractually required	\$ (77,427)	\$ (158,829)	\$ (174,122)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	2,414,007	2,549,431	2,533,194
Contributions as a percentage of covered employee payroll	3.21%	6.23%	6.87%
Notes to Schedule:			
*Until a full 10-year-trend is compiled, governments should present information only for those years for			

Port of Port Angeles Schedule of Proportionate Share of the Net Pension Liability Department of Retirement Systems PERS 1 As of June 30, 2017 Last 10 Fiscal Years*				
		2015	2016	2017
Employer's proportion of the net pension liability (asset)	%	0.020741%	0.020859%	0.019853%
Employer's proportionate share of the net pension liability	\$	\$ 1,084,947	\$ 1,120,227	\$ 942,040
TOTAL	\$	\$ 1,084,947	\$ 1,120,227	\$ 942,040
Employer's covered employee payroll	\$	\$ 2,414,007	\$ 2,549,431	\$ 2,533,194
Employer's proportionate share of the net pension liability as a	%	44.94%	43.94%	37.19%
Plan fiduciary net position as a percentage of the total pension liability See Note 2 of DRS Participating Employer Financial Information report	%	59.10%	57.03%	61.24%
Notes to Schedule:				
*Until a full 10-year-trend is compiled, governments should present information only for those years for which information is available				
Port of Port Angeles Schedule of Proportionate Share of the Net Pension Liability Department of Retirement Systems PERS 2 & 3 As of June 30, 2017 Last 10 Fiscal Years*				
		2015	2016	2017
Employer's proportion of the net pension liability (asset)	%	0.02074%	0.020859%	0.025536%
Employer's proportionate share of the net pension liability	\$	\$ 957,222	\$ 1,344,123	\$ 887,254
TOTAL	\$	\$ 957,222	\$ 1,344,123	\$ 887,254
Employer's covered employee payroll	\$	\$ 2,414,007	\$ 2,549,431	\$ 2,533,194
Employer's proportionate share of the net pension liability as a	%	39.65%	52.72%	35.03%
Plan fiduciary net position as a percentage of the total pension liability See Note 2 of DRS Participating Employer Financial Information report	%	89.20%	85.82%	90.97%
Notes to Schedule:				
*Until a full 10-year-trend is compiled, governments should present information only for those years for which information is available				

**Port of Port Angeles  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
Economic Development Administration, Department Of Commerce	Investments for Public Works and Economic Development Facilities	11.300	07-79-06989	-	69,188	-	1, 2
<b>Total Economic Development Cluster:</b>				-	<b>69,188</b>	-	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0047-034- 2015	-	56,383	-	1, 2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0047-035- 2015	-	190,784	-	1, 2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0047-036- 2016	-	250,904	-	1, 2
<b>Total CFDA 20.106:</b>				-	<b>498,071</b>	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security	Port Security Grant Program	97.056	EMW2014PU001 96	-	385,156	-	1, 2
Federal Emergency Management Agency (fema), Department Of Homeland Security	Port Security Grant Program	97.056	EMW2015PU003 64	-	13,144	-	1, 2
<b>Total CFDA 97.056:</b>				-	<b>398,300</b>	-	
<b>Total Federal Awards Expended:</b>				-	<b>965,559</b>	-	

**Port of Port Angeles**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the Port of Port Angeles financial statements. The Port of Port Angeles 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(s).

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

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

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port of Port Angeles portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 7 – Indirect Cost Rate

The Port of Port Angeles has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**FAIRCHILD INTERNATIONAL AIRPORT**

**SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED**

**Year Ended December 31, 2017**

	Mar-17	Jun-17	Sep-17	Dec-17	Total
Unexpended PFCs and Interest, Beginning of Period	\$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	268.64	367.92	537.28	487.64	1,661.48
Interest Earned	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>268.64</b>	<b>367.92</b>	<b>537.28</b>	<b>487.64</b>	<b>\$1,661.48</b>
Expenses/Expenditures	268.64	367.92	537.28	487.64	\$1,661.48
Unexpended PFC and Interest	0.00	0.00	0.00	0.00	<b>0.00</b>

**Year Ended December 31, 2016**

	Mar-16	Jun-16	Sep-16	Dec-16	Total
Unexpended PFCs and Interest, Beginning of Period	\$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	347.48	353.32	560.64	443.84	1,705.28
Interest Earned	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>347.48</b>	<b>353.32</b>	<b>560.64</b>	<b>443.84</b>	<b>\$1,705.28</b>
Expenses/Expenditures	347.48	353.32	560.64	443.84	\$1,705.28
Unexpended PFC and Interest	0.00	0.00	0.00	0.00	<b>0.00</b>

**NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED**

**1. BASIS OF ACCOUNTING**

This schedule is prepared generally on the same basis of accounting as the Airport's financial statements. However, while the Airport uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented represent only those receipts actually received for the quarter reported. PFC revenues not received prior to the end of each quarter are not accrued and are reported as revenues of the subsequent reporting period.

**2. PROGRAM COSTS**

The amounts shown as current year revenues and expenses represent only the Passenger Facilities Charges portion of the project costs. Entire project costs may be more than shown.

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>