Washington State Auditor's Office

Financial Statements Audit Report

Port of Grays Harbor

Grays Harbor County

Audit Period

January 1, 2013 through December 31, 2013

Report No. 1012282

Issue Date

July 28, 2014

Washington State Auditor
Troy Kelley

Independence • Respect • Integrity

Washington State Auditor
Troy Kelley

July 28, 2014

Board of Commissioners
Port of Grays Harbor
Aberdeen, Washington

Report on Financial Statements

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Port of Grays Harbor
Grays Harbor County
January 1, 2013 through December 31, 2013

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 Grays Harbor
Grays Harbor County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Grays Harbor
Aberdeen, 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 Grays Harbor, Grays Harbor County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated July 16, 2014.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

July 16, 2014

Independent Auditor's Report on Financial Statements

Port of Grays Harbor
Grays Harbor County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Grays Harbor
Aberdeen, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Grays Harbor, Grays Harbor County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 5.

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 Grays Harbor, as of December 31, 2013 and 2012, 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 on pages 6 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2014 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

July 16, 2014

Financial Section

Port of Grays Harbor
Grays Harbor County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Port of Grays Harbor
Management's Discussion and Analysis
December 31, 2013 and 2012

INTRODUCTION

The following is the Port of Grays Harbor's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal years ended December 31, 2013 and 2012, with selected comparative information for the year ended December 31, 2011. Information contained in this Management Discussion and Analysis (MD&A) has been prepared by Port management and should be considered in conjunction with the Port's financial statements and notes to the financial statements.

The Port of Grays Harbor is a Special Purpose Municipal Government, created by a vote of the people of Grays Harbor County, Washington, in 1911. The Port operates four deep-water Marine Terminals for receiving and shipping international cargoes, a Regional Airport for general aviation, a Marina for recreational and commercial boating, and 1,600 acres of industrial properties to support private business activities. During 2013, the Port increased its industrial property holding 600 acres by merging with the Grays Harbor Public Development Authority (GHPDA) and taking over operations of the Satsop Business Park in Elma, Washington. The merger included 1,200 acres of managed forest land surrounding the Satsop Park.

OVERVIEW OF FINANCIAL STATEMENTS

The Port's financial statements include three parts: Management's Discussion and Analysis; the basic financial statements; and the notes to the financial statements. This MD&A is intended to serve as an introduction to the Port's basic financial statements. The basic financial statements include: the *Statements of Net Position*; the *Statements of Revenues, Expenses and Changes in Net Position*; and the *Statements of Cash Flows*.

Understanding the financial trend of the Port begins with the *Statements of Net Position*, and with the *Statements of Revenues, Expenses and Changes in Net Position*.

The *Statements of Net Position* present information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* show how the Port's net position changed during the current and previous fiscal years. These changes are reported as soon as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

Notes to the Financial Statements. The notes to the Port's financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found following this MD&A and the Port's basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Port exceeded its liabilities by $140.6 million at the end of 2013 (reported as net position). This represented a $63.2 million (82 percent) increase from the previous year. Of this increase, $59.9 million resulted from the merger with the GHPDA and takeover of the Satsop Business Park assets and liabilities on January 1, 2013, and $3.3 million (4.3 percent) resulted from Port operations.

- The Port's investment in capital assets as of December 31, 2013 totaled $135.3 million (net of accumulated depreciation), an increase of $53.5 million (65.5 percent) over 2012. The merger with the GHPDA resulted in an increase of $55.2 million, while the Port's investment in capital assets existing prior to the merger decreased 2.1%.

- The Port had outstanding liabilities of $26.7 million at the end of 2013 compared to $23.6 million the previous year, an increase of $3.1 million (13.2 percent).

- Of the Port's $140.6 million in net position at the end of 2013, $114 million was invested in capital assets (net of related debt), $10.1 million was restricted for future capital investment, and $16.5 million was unrestricted.

- The Port maintained a current ratio (current assets/current liabilities) of 3.0 to 1 at December 31, 2013, with total unrestricted current assets of $17.8 million and current liabilities of $6 million. This is an increase from the current ratio of 2.0 the previous year.

The following table summarizes the Port's assets, liabilities, deferred outflows of resources and net position as of December 31, 2013, 2012 and 2011.

NET POSITION
December 31, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
Assets:			
Current and other assets	$ 32,038	$ 19,133	$ 17,641
Capital assets, net	135,286	81,752	80,214
Total Assets	167,324	100,885	97,855
Deferred Outflows of Resources			
Deferred charge on refunding	45	69	92
Total Deferred Outflows of Resources	45	69	92
Liabilities:			
Current and other liabilities	6,014	3,940	3,627
Non-current liabilities	20,715	19,676	21,313
Total Liabilities	26,729	23,616	24,940

NET POSITION (continued)
December 31, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
Net Position:			
Net investment in capital assets	114,038	61,406	58,545
Restricted net position	10,097	7,118	7,946
Unrestricted net position	16,506	8,814	6,516
Total Net Position	$ 140,641	$ 77,338	$ 73,007

SUMMARY OF FINANCIAL OPERATIONS AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses, and Changes in Net Position show how the port's net position changed during the current and previous fiscal year as a result of operations. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected receivables).

- **Revenues:** Port revenues are reported in two categories: operating revenues and non-operating revenues, which include capital contributions.
  - **Operating Revenues:** Port operating revenues increased $6.5 million (27 percent) over 2012. Vessel calls and export cargo handling activity was up $3.5 million (17.4 percent) positively impacting revenues in the Port's marine terminals, pilotage services and ship assist services divisions. The merger with the Satsop Business park resulted in $2.9 million new revenue to the Port. All other divisions (industrial properties, airport and marina) increased 1 percent over the previous year.
  - **Non-Operating Revenues:** 2013 non-operating revenue decreased $1.9 million (38.7 percent) over 2012. The prior year revenue includes the sale of Port property in the amount of $2 million, accounting for the change from 2012 to 2013.
  - **Capital Contributions:** Capital contributions reflect amounts received from federal, state and local sources to provide funding assistance for new Port infrastructure and major renovation projects. 2013 capital contributions increased $808,000 (98 percent) over 2012. The capital contributions were used to fund 35 percent of the Port's 2013 capital asset acquisition and improvement projects.
- **Expenses:** Port expenses are reported in two categories: operating expenses and non-operating expenses.
  - **Operating Expenses:** Operating expenses increased $6.3 million (26 percent) in 2013. The merger with the Satsop Business Park resulted in $5.2 million in new operating expenses. Port expenses from existing operations increased $1.1 million (4.8 percent). Operating expenses directly relate to services provided by the Port to its customers. (See preceding discussion regarding Port operating revenues and activity.)
  - **Non-Operating Expenses:** 2013 non-operating expenses increased $73,300 (8.2 percent) over 2012.
- **Extraordinary Item:** On January 1, 2013, the Port merged with the Grays Harbor Public Development Authority (GHPDA), which owned and operated the Satsop Development Park. The GHPDA position of net assets in excess of liabilities at the time of the merger was $59.9 million and has been recorded as an extraordinary item on the Comparative Statements of Revenues, Expenses and Changes in Net Position. Note 14 of the Port's notes to the financial statements provides more information regarding the merger.

- **Revenue Debt Coverage Ratio**: Cash flow available to make debt service payments was $8.1 million for 2013, and resulted in a debt coverage ratio of 5.79. This ratio measures the Port's ability to pay its annual commitment to its revenue bond holders.

The following table summarizes the operating results and change in net position for fiscal years ending December 31, 2013, 2012 and 2011.

REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
Operating Revenues			
Airport Operations	222	278	225
Marina Operations	965	926	785
Marine Terminal Operations	21,068	18,193	12,229
Property Lease/Rental Operations	2,549	2,489	2,195
Satsop Business Park	2,908	-	-
Pilotage Services	1,268	972	784
Ship Assist Services	1,613	1,236	1,087
Total Operating Revenues	30,593	24,094	17,305
Operating Expenses			
General Operations	20,042	17,110	11,518
Maintenance	2,297	1,900	1,778
General and Administrative	2,239	1,613	1,443
Depreciation (Note 4)	6,203	3,814	3,193
Total Operating Expenses	30,781	24,437	17,932
Operating Loss	(188)	(343)	(627)
Non-operating Revenues	2,968	4,914	2,883
Non-operating Expenses	(967)	(894)	(831)
Increase in Net Position, before capital contributions & extraordinary item	1,813	3,677	1,425
Capital Contributions	1,632	824	1,050
Extraordinary Item	59,858	-	-
Increase in Net Position	63,303	4,501	2,475
Net Position at beginning of year	77,338	73,007	70,532
Change in Accounting Principle	-	(170)	-
Net Position at end of year	$ 140,641	$ 77,338	$ 73,007

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Port's investment in capital assets as of December 31, 2013 totaled $135.3 million (net of accumulated depreciation). The Port's capital assets include land, buildings, improvements (other than buildings), machinery and equipment, and construction in progress. Overall, the book value of the capital assets increased $53.5 million in 2013. Major capital asset events during 2013 included the following:

Capital Assets (net of accumulated depreciation) located at the Satsop Business Park acquired as a result of merger with the Grays Harbor PDA on January 1, 2013	$ 55,249,000
Marine Terminal Cargo Yard Paving – North Lot Expansion (100% complete)	2,519,000
Satsop Business Park Sewer System General Plan & System Upgrade (10% complete)	459,000

The following table summarizes the Port's investment in capital assets, net of depreciation as of December 31, 2013, 2012 and 2011:

(In thousands)

	2013	2012	2011
Land	$ 22,642	$ 9,398	$ 9,486
Improvements to Land	13,832	11,041	9,088
Buildings & Structures	62,492	27,178	27,447
Machinery & Equipment	948	883	706
Other Improvements	33,210	32,001	32,656
Construction in Progress	2,162	1,251	831
Capital Assets, net of accumulated depreciation	$ 135,286	$ 81,752	$ 80,214

Additional information regarding the Port's capital assets can be found in note 4 of the Port's notes to the financial statements.

Long-Term Debt. At December 31, 2013 the Port's total long-term debt outstanding was $22.5 million, of which $1.7 million will mature during 2014. Of the total amount outstanding $13.8 million is for general obligation bonds, $2.4 million for revenue bonds outstanding, $5.0 million for long-term contracts payable to the State of Washington, Grays Harbor County, and Craft3, and $1.3 million for other long-term debt.

As a result of the merger with the Grays Harbor Public Development Authority (GHPDA), the Port became obligated for the repayment of a loan with the State of Washington previously held by the GHPDA. The loan balance as of December 31, 2013 was $740,605.

The Port also entered into a new loan agreement during 2013 with Craft3, a nonprofit community development financial institution, in the amount of $1.3 million to finance the acquisition of manufacturing equipment previously owned by NewWood Inc. The equipment is located in a Port-owned building at the Satsop Business Park.
Debt service payments on the Port's outstanding bond debt will average $2.1 million per year over the next five (5) years, with $2.5 million going towards revenue bonds, and $8.0 million for general obligation bond debt service.

The Port's outstanding bonds were issued in 2011 with a Moody's Investor Service A1 rating for the general obligation bonds and an A3 rating for the revenue refunding bonds. The bonds are not rated by Standard & Poor's. Additional information on the Port's long-term debt can be found in note 7 of the Port's notes to the financial statements.

ECONOMIC OUTLOOK

The Port of Grays Harbor's mission is to promote trade and economic development for the region. The Port manages four major areas of operation to achieve this mission: Deep-water marine terminal docks and wharves; industrial (tenant-occupied) lands and buildings; a regional airport (FAA); and a commercial and recreational boat marina. The marine terminal division is the largest Port operation, accounting for 60 percent of the Port's revenues. The industrial property leasing activities, including the Satsop Business Park, accounts for 16 percent of revenues. There are several issues that could impact the future financial condition of the Port, including global economic conditions and changing market demands.

- Marine Terminal Operations: The Port is focused to attract and maintain diverse cargo shipment business and long-term private industry partners. Primary commodities currently handled by the Port are bulk, break-bulk and roll-on/roll-off (RoRo) cargo.

    - The Port's Terminal No. 2 bulk agricultural commodity export facility was completed in December 2003 and the equipment is privately owned by Ag Processing, Inc. (AGP). AGP expanded the export facility in 2011 by constructing six storage silos adjacent to the terminal. AGP maintains ownership and marketing rights of the facility, and contracts with the Port to operate the facility. Market conditions were favorable in 2013 as cargo handled was up six (6) percent over 2012. Future revenue from terminal No. 2 activity is expected to increase due to the completion of the expansion project; however revenue will continue to be subject to fluctuation depending upon export market conditions. Expenses will adjust with revenues and thereby limit the financial exposure for the Port to such fluctuations.

    - In 2007, Imperium Renewables built a biodiesel processing plant adjacent to Port terminals 1 and 2, selecting the site in order to maintain access to multi-modal transportation systems necessary to their operation. Domestically, the biodiesel market is immature and highly sensitive to both domestic and global market and economic conditions, as well as Government energy policy, including price subsidies, for the bio-energy sectors. In 2013, market and policy factors were favorable.

    - In January 2009, Westway Terminals leased property from the Port and subsequently constructed a liquid bulk storage and transfer facility also adjacent to Port terminals 1 and 2. The activity at this facility is subject to fluctuation due to commodity prices and international market conditions.

    - In January 2009, the Port entered into a Joint Marketing Agreement with The Pasha Group for the development of the Port's marine terminal no. 4 to handle automobiles, over-high over-wide equipment and break-bulk cargo. Regular vessel calls are provided by Siem Car Carriers as part of their North America Pacific Asia RoRo transpacific liner service. During 2013, 37 vessels were loaded at the Port of Grays Harbor with 90,000 automobiles and over-high over-wide equipment, a 27 percent increase. Future activity is expected to grow, although will be subject to global auto import and export market conditions.

    - Willis Enterprises conducts barge operations at Port terminal 3 shipping wood chips to West Coast destinations, and log export customers utilize Port terminals 3 and 4 to export logs to the Pacific Rim. Future activity is expected to be stable, although will be subject to commodity pricing and other market conditions. Market conditions were favorable in 2013 resulting in a 142% increase in logs exported through the Port.

- The Port's debt coverage ratio is highly sensitive to fluctuations in the Port's marine terminal and other revenue. The Port maintains $12.6 million in reserve funds, which are additional to the Port's revenue bond debt service reserve fund and general operating funds. These funds are available to mitigate any revenue fluctuations that might occur.

- 2014 Budget: The Port's 2014 budget forecasts stable market conditions with a one (1) percent increase in export activity in the marine services divisions, and stable revenue in industrial properties leasing activity, airport revenue and marina revenue.

  Overall, operating revenues are forecast to decrease four (4) percent with operating expenses forecast to increase three (3) percent, and an overall increase of three (3) percent in the Port's net position.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Port's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Port of Grays Harbor, Director of Finance and Administration, P.O. Box 660, Aberdeen, WA 98520, or by phoning (360) 533-9528.

PORT OF GRAYS HARBOR
COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	Restated 2012
ASSETS		
CURRENT ASSETS		
Cash & Cash Equivalents (Note 1)	$ 8,718,373	$ 2,273,099
Investments (Note 2)	128,764	0
Restricted Assets		
Cash & Cash Equivalents (Note 1)	12,043,340	10,084,472
Investments (Note 2)	500,000	0
Taxes Receivable (Note 3)	228,013	229,906
Accounts Receivable, Net of Reserve for Doubtful Accounts of $217,613 & $25,264 (Note 1)	6,175,880	4,334,789
Interest Receivable (Note 1)	5,710	4,947
Contracts Receivable (Note 1)	447,592	352,000
Inventory (Note 1)	398,133	298,129
Assets Held for Resale (Note 1)	1,305,000	0
Prepaid Expenses	421,387	324,468
Total Current Assets	30,372,192	17,901,810
NON-CURRENT ASSETS		
Restricted Assets (Note 1)		
Investments	500,000	0
Total Restricted Assets	500,000	0
Capital Assets Not Being Depreciated (Note 4)		
Land	22,641,545	9,398,030
Construction in Progress	2,162,323	1,251,257
Total Capital Assets Not Being Depreciated	24,803,868	10,649,287
Capital Assets Being Depreciated (Note 4)		
Property, Plant & Equipment	232,806,955	160,536,828
Less: Accumulated Depreciation	(122,324,368)	(89,434,276)
Total Net Capital Assets Being Depreciated	110,482,587	71,102,552
Total Net Capital Assets	135,286,455	81,751,839
Other Non-Current Assets		
Contracts Receivable (Note 1)	1,165,850	1,232,000
Total Non-Current Assets	136,952,305	82,983,839
TOTAL ASSETS	**$ 167,324,497**	**$ 100,885,649**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding (Notes 1 & 13)	45,136	68,685
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$ 45,136**	**$ 68,685**

The accompanying notes are an integral part of this financial statement

PORT OF GRAYS HARBOR
COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	Restated 2012
LIABILITIES		
CURRENT LIABILITIES		
Warrants Payable	$ 129,178	$ 535,153
Accounts Payable	1,851,540	522,397
Accrued Expenses (Note 1)	810,492	671,700
Accrued Interest Payable (Note 1)	67,977	67,171
Current Portion of Long-Term Liabilites (Note 7)	1,744,539	1,388,328
Other Current Liabilities (Note 1)	1,409,973	755,698
Total Current Liabilities	6,013,699	3,940,447
NON-CURRENT LIABILITIES		
General Obligation Bonds (Note 7)	13,696,807	13,692,133
Revenue Bonds (Note 7)	1,166,026	2,505,475
Contracts Payable (Note 7)	4,641,723	2,759,700
Employee Leave Benefits (Note 1)	532,487	426,420
Other Post Employement Benefits (Note 12)	501,899	237,122
Other Non-Current Liabilities (Note 1)	176,427	54,745
Total Non-Current Liabilities	20,715,369	19,675,595
TOTAL LIABILITIES	**$ 26,729,068**	**$ 23,616,042**
NET POSITION		
Net Investment in Capital Assets	114,037,360	61,406,203
Restricted (Note 10)	10,097,364	7,117,595
Unrestricted	16,505,841	8,814,494
TOTAL NET POSITION	**$ 140,640,565**	**$ 77,338,292**

The accompanying notes are an integral part of this financial statement

PORT OF GRAYS HARBOR
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2013 and 2012

	2013	Restated 2012
OPERATING REVENUES		
Airport Operations	$ 222,106	$ 278,020
Marina Operations	965,528	925,937
Marine Terminal Operations	21,067,911	18,192,962
Property Lease/Rental Operations	2,548,611	2,488,967
Satsop Business Park Operations (Note 14)	2,908,208	0
Pilotage Services	1,267,845	972,327
Ship Assist Services	1,612,515	1,236,046
Total Operating Revenues	30,592,724	24,094,259
OPERATING EXPENSES		
General Operations	20,041,875	17,110,320
Maintenance	2,296,889	1,900,284
General and Administrative	2,238,600	1,612,775
Depreciation (Note 4)	6,203,146	3,813,891
Total Operating Expenses	30,780,510	24,437,270
Operating Loss	(187,786)	(343,011)
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	157,500	125,992
Taxes Levied for (Note 3)		
General Purposes	2,319,105	2,245,820
Timber and Other Taxes	523,916	530,740
Gain (Loss) on Disposition of Assets	(71,782)	1,995,876
Interest Expense	(813,919)	(827,114)
Election Expense	(8,184)	0
Other Non-Operating Revenues (Expenses)	(106,071)	(51,443)
Net Non-Operating Revenues	2,000,565	4,019,871
Income Before Capital Contributions & Extraordinary Item	1,812,779	3,676,860
Capital Contributions (Note 1)	1,631,943	823,717
Extraordinary Item (Note 14)	59,857,551	0
INCREASE IN NET POSITION	**63,302,273**	**4,500,577**
Net Position - January 1	77,338,292	73,007,410
Change in Accounting Principle (Note 13)	0	(169,695)
Net Position - December 31	**$ 140,640,565**	**$ 77,338,292**

The accompanying notes are an integral part of this financial statement

PORT OF GRAYS HARBOR
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 29,937,906	$ 23,031,128
Payments to suppliers	(12,747,168)	(10,260,218)
Payments to employees	(12,232,649)	(10,106,313)
Other receipts (payments) (1)	(183,880)	(96,332)
Net Cash Provided By Operating Activities	4,774,209	2,568,265
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property Taxes for Operations & Debt Service	2,320,998	2,263,737
Cash Received from Timber & Other Taxes	523,916	530,740
Interest Income - Other	113,624	99,887
Sale of Scrap & Other Non-Operating Revenue	39,254	15,566
Net Cash Provided by Non-Capital Financing Activities	2,997,792	2,909,930
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Proceeds from Capital Debt	1,505,000	0
Purchase of Capital Assets	(4,660,796)	(5,668,097)
Capital Contributions	1,631,943	823,717
Principal Paid on Long-term Debt & Contracts Payable	(1,377,706)	(1,288,809)
Interest Expense	(793,593)	(805,741)
Government Merger (Note 14)	2,212,307	0
Gain on Asset Dispositions	7,582	1,992,237
Net Cash Used in Capital & Related Financing Activities	(1,475,263)	(4,946,693)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of Investments	2,056,390	0
Investment Expense	595	(451)
Interest Income	50,419	26,104
Net Cash Provided by Investing Activities	2,107,404	25,653
Net Increase (Decrease) in Cash & Cash Equivalents	8,404,142	557,155
Cash & Cash Equivalents, Beginning of Year	12,357,571	11,800,416
Cash & Cash Equivalents, End of Year	$ 20,761,713	$ 12,357,571

The accompanying notes are an integral part of this financial statement

PORT OF GRAYS HARBOR
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2013	2012
Operating Loss	$ (187,786)	$ (343,011)
Adjustments (1)	(183,880)	(96,332)
Net Operating Income (Loss)	(371,666)	(439,343)
Adjustments to reconcile Net Operating Income (Loss)		
to Net Cash Provided by Operating Activities:		
Depreciation	6,244,240	3,846,701
Allowance for Uncollectible Accounts	192,349	17,040
Change in Assets & Liabilities:		
(Increase) Decrease in Accounts Receivable	(1,536,777)	(1,117,868)
(Increase) Decrease in Other Current Assets	(1,418,021)	(22,183)
Construction in Progress Work Expensed	59,000	0
Increase (Decrease) in Accounts & Warrants Payable	797,957	29,826
Increase (Decrease) in Other Current Liabilities	542,414	236,654
Increase (Decrease) in Other Long-Term Liabilities	264,713	17,438
Total Adjustments	5,145,875	3,007,608
Net Cash Provided By Operating Activities	$ 4,774,209	$ 2,568,265

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

	2013	2012
Result of Government Merger (Note 14):		
Increase in Investments	$ 3,191,493	$ 0
Increase in Accounts Receivable	534,652	0
Increase in Other Assets	83,904	0
Increase in Net Capital Assets	82,018,678	0
Increase in Accumulated Depreciation	26,769,838	0
Increase in Accounts Payable	193,174	0
Increase in Other Current Liabilities	277,054	0
Increase in Long-Term Liabilities	943,417	0

(1) Election expenses & other non-operating expenses reported as non-operating on the Statement of Revenues, Expenses, and Changes in Net Position are more accurately reported as operating activities on this Statement.

The accompanying notes are an integral part of this financial statement

PORT OF GRAYS HARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In June 1999, GASB approved Statement 34, *Basic Financial Statements, and Management Discussion and Analysis, for State and Local Governments*. This and consecutive GASB statements are reflected in the accompanying financial statements, including the notes to financial statements.

The more significant of the Port's accounting policies are described below.

A. Reporting Entity - The Port of Grays Harbor is a special purpose government governed by an elected three-member commission. Organized under the laws of the State of Washington applicable to public port districts (RCW Title 53), the Port is authorized to provide for the development and maintenance of harbors and terminals, promote tourism, and foster economic development. The Port may acquire land for sale or lease for industrial or commercial purposes and may create industrial development districts.

Created by the voters of Grays Harbor County in 1911, the Port operates marine terminal, marina, airport and industrial park facilities, providing services to customers and the general public. In 2013, the Port's Marine Terminal facility accounts for 60% of the Port's revenue, and includes five deep water berths serving trading partners located throughout the Pacific Rim. Services include intermodal yard management, cargo handling and transfer, and storage services. Primary cargos handled during 2013 were agricultural dry bulk commodities (57%), liquid bulk (18%), logs (13%), automobiles and equipment (7%) and wood chips (4%). In 2012, the Marine Terminal accounted for 61% of the Ports' revenue with primary cargos handled agricultural dry bulk (69%), automobiles and equipment (8%), liquid bulk (8%), logs (7%), pulp (5%) and wood chips (3%). The Port operates within its corporate boundaries, which are contiguous with those of Grays Harbor County located on Washington's Pacific Coast.

The accompanying financial statements present the Port of Grays Harbor and its component unit, an entity for which the Port is considered to be financially accountable, as described below.

The Industrial Development Corporation of the Port of Grays Harbor was created in 1982 with the purpose to facilitate the issuance of tax-exempt, nonrecourse revenue bonds to finance qualified private industrial development projects within Port District boundaries. Under Washington law, these bonds are payable solely from revenues derived from the projects financed, are not a direct or contingent liability of the Port, and are not a lien on Port properties or revenues.

The Industrial Development Corporation is governed by a board comprised of the Port's three elected Commissioners. Although legally a separate entity, the Industrial Development Corporation is, in substance, part of the Port's operations, and its account balances and transactions are included as a blended unit within the Port's financial statements.

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

The accounts of the Port of Grays Harbor are maintained on a cost of services or an economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with the Port's activities are included on its statements of net position (or balance sheets). Total net position is segregated into net investment in capital assets, and restricted and unrestricted components. The 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 which presents the results of operating, noncapital financing, capital and related financing and investing activities.

The Port of Grays Harbor 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 recognized.

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. The Port's primary operating revenues result from charges to customers for use of Port facilities and services in the Port's Marine Terminal division and Industrial Properties. Other operating revenues also result from the Port's Westport Marina, Bowerman Airport, ship assist, and bar pilot operations. Expenses associated with the generation of these revenues are reported as operating expenses, including cost of services provided, maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Deferred Outflows of Resources, Liabilities and Net Position -

1. Cash and Cash Equivalents - It is the policy of the Port of Grays Harbor to invest all temporary cash surpluses. At December 31, 2013 and 2012, short-term residual investments of cash totaled $20,761,713 and $12,357,571, respectively. Bank balances and book values do not differ materially. These amounts are classified on the statements of net position as cash and cash equivalents.

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

On January 1, 2013, the Port of Grays Harbor merged with the Grays Harbor Public Development Authority (GHPDA) resulting in a transfer of all assets, liabilities and net position of the GHPDA to the Port, including cash of $1,116,340 and short-term investments of $1,095,967. See Note 14.

2. Investments - See Note 2.

3. Receivables - Taxes receivable consist of property taxes plus related interest and penalties (see Note 3). Because such taxes are considered liens on property, no reserve for doubtful accounts is established. Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

Customer accounts receivable consist of amounts owed by private individuals or organizations for services including amounts owed for which billings have not been prepared. Accounts receivable are reported net of estimated uncollectible amounts. Accounts are either written off to the allowance for doubtful accounts when deemed uncollectible and further collection efforts would not be beneficial, or an amount is reserved for a portion or all of the account receivable while collection efforts continue although the probability of successful collection is unlikely.

Contracts and interest receivable consist of amounts owed by private individuals or organizations for purchase of land from the Port.

4. Inventories and Assets Held for Resale

Inventories - Inventories are valued by the first-in-first-out method which approximates the market value. It is the policy of the Port of Grays Harbor to expense most spare parts for equipment and facility repairs as acquired. An inventory of such items would not be material in relation to either financial position or results of operations.

Assets Held for Resale - Assets held for resale consist of process equipment and intellectual property acquired by the Port in December 2013 from the court-appointed receiver of a Port tenant. The Port purchased the assets in order to market them along with the lease facilities to potential manufacturers. The assets are available for immediate sale in their present condition and location. There is no intention of using the assets in the operations of the Port. Should marketing efforts be unsuccessful, the Port is prepared to liquidate the machinery and equipment. Liquidation value of the assets exceeds the purchase price. Sale or liquidation of the assets is expected to be completed within a year of the purchase. Loan proceeds were used to acquire the assets. See Note 7.

5. Restricted Assets - In accordance with bond resolutions and state law, separate restricted accounts have been established by the Port. These accounts contain resources for industrial development and debt service. Specific debt service requirements are described in Note 7, Long Term Debt. See also Notes 2 and 12.

6. Capital Assets and Depreciation - See Note 4.

7. Accrued Expenses - These accounts consist of accrued wages, accrued employee benefits and accrued payroll tax liabilities.

8. Accrued Interest Payable - Consists of interest accrued on long-term debt issued by the Port. See Note 7.

9. Other Current Liabilities and Other Non-Current Liabilities –

Compensated Absences - Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The port records vested unpaid leave for compensated absences as an expense and liability when incurred. The port does not accrue non-vested sick leave benefits.

Vacation pay, which may be accumulated up to a maximum of 400 hours, is payable upon resignation, termination or death. Sick leave may be accumulated up to a maximum of 720 hours, but is vested or payable upon resignation, termination or death following one year of employment to a maximum of 360 hours. Vested unpaid vacation and sick leave entitlements at December 31, 2013 and 2012, totaled $608,444 and $471,636, respectively. See Note 7.

As a result of the Port’s merger with the Grays Harbor Public Development Authority (GHPDA) on January 1, 2013, the GHPDA transferred all its assets, liabilities and net position to the Port, including compensated absences of $72,019. See Note 14.

Other – Also included in Other Current and Other Non-Current liabilities are customer deposits, lease prepayments which do not meet revenue recognition criteria (see Note 9), taxes payable, retainages payable on public works contracts, contingency reserves (see Note 8), environmental remediation obligations (see Note 11), and other post-employment benefit plan liabilities (see Note 12).

10. Capital Contributions - Contributions from other entities for capital asset acquisition.

11. Restricted Component of Net Position - See Note 10.

12. Deferred Outflows of Resources – In 2013, the Port implemented GASB 65 and reports a separate section for deferred outflows of resouces. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. These charges resulted from the difference in the carrying value of refunded debt and its reacquisition price amortized over the shorter of the life of the refunded or refunding debt (see Note 13).

NOTE 2 - DEPOSITS AND INVESTMENTS

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

B. Investments - As required by State law, all deposits and investments of the Port's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer's Local Government Investment Pool (LGIP), or certificates of deposit with Washington State banks and savings and loan institutions. Investments are shown at fair value.

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

Investment	Fair Value
State Treasurer's Local Gov't Investment Pool	$ 17,140,592
Certificate of Deposit Account Registry Service (CDARS)	1,000,000
U.S. Agencies	128,764
Total	$ 18,269,356

As of December 31, 2012, the Port had the following investments:

Investment	Fair Value
State Treasurer's Local Gov't Investment Pool	$ 11,730,415
Total	$ 11,730,415

Of the above investments: the Washington State Treasurer's Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31; the certificates of deposit have been issued through CDARS by one or more FDIC-insured depository institutions; and the U.S. Agencies are guaranteed by the U.S. government.

As a result of the Port's merger with the Grays Harbor Public Development Authority (GHPDA) on January 1, 2013, the GHPDA transferred all its assets, liabilities and net position to the Port, including investments of $3,191,492. See Note 14.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port of Grays Harbor would not be able to recover the value of the investment or collateral securities. Of the Port's total position of $18,269,356 in LGIP, CDARs and U.S. Treasuries, none ($-0-) is exposed to custodial credit risk. As of December 31, 2012, of the Port's total position of $11,730,415 none ($-0-) was exposed to custodial credit risk.

NOTE 3 - PROPERTY TAXES

The County Treasurer acts as agent to collect property taxes levied in Grays Harbor County for all taxing authorities. Collections are distributed after the end of each month to each taxing district. A revaluation of all property is required every four years.

Under Washington law, property taxes are levied and become an enforceable lien against properties on January 1. Tax bills are mailed on February 14, and the first of two equal installment payments is due on April 30 with the second installment being due on October 31. The assessed value of property for the next year's levy is established on May 31 at 100% of market value.

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. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port of Grays Harbor may levy up to $0.45 per $1,000 assessed valuation in support of general operations. The rate is limited by the Washington State Constitution and Washington State law, RCW 84.55.010. The Port may voluntarily levy taxes below the legal limit.

The Port's regular levy for 2013 was $0.3736 per $1,000 on an assessed valuation of $6,244,148,112 for a total regular levy of $2,332,599. In 2012, the regular tax levy was $2,311,321 with a levy rate of $0.3626 per $1,000 on assessed valuation of $6,375,028,341.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

A. Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. The Port's policy is to capitalize all assets costing $500 or more that have an estimated useful life of 5 years or more. Cost of maintenance, repairs and minor renewals is expensed.

All capital assets are valued at historical cost. The Port of Grays Harbor has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the terms of the agreements involved, the Federal or State 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 capital assets are retired or otherwise disposed of, the original cost of the asset, any subsequently capitalized costs and any accumulated depreciation are removed from the capital asset accounts. Any gain or loss on the disposition of the asset is recognized as current income or expense.

An allowance for funds used during construction is capitalized as part of the cost of the plant. The procedure is intended to remove the cost of financing construction activity from the statements of revenues, expenses and changes in net position, and to treat such cost in the same manner as construction labor and material costs. In 2013 and 2012 there were no interest costs capitalized for funds borrowed to finance the construction of capital assets.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives. Depreciation is calculated by the straight line method utilizing useful lives of 5 to 50 years, and commences in the year following completion of a project or in the month following acquisition of an asset. Depreciation expense for the year ended December 31, 2013 totaled $6,244,240, of which $6,203,146 was operating expense and $41,094 was related to non-operating activity. Depreciation expense for the year ended December 31, 2012 totaled $3,846,701, of which $3,813,891 was operating expense and $18,995 was related to non-operating activity.

As a result of the Port's merger with the Grays Harbor Public Development Authority (GHPDA) on January 1, 2013, the GHPDA transferred all its assets, liabilities and net position to the Port, including capital assets of $81,803,865, construction in progress of $214,813 and accumulated depreciation of $26,769,838. See Note 14.

B. Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance 1/1/13	Additions	Deletions	Ending Balance 12/31/13
Capital assets, not being depreciated				
Land	$ 9,398,030	$ 13,243,515	$ -	$ 22,641,545
Construction in Progress	1,251,257	4,524,907	3,613,841	2,162,323
Total capital assets, not being depreciated	**10,649,287**	**17,768,422**	**3,613,841**	**24,803,868**
Capital assets, being depreciated				
Land Improvements	21,626,689	3,646,257	-	25,272,946
Buildings & Structures	73,099,118	58,198,012	-	131,297,130
Machinery & Equipment	10,298,068	790,175	-	11,088,243
Other Improvements	55,512,953	9,831,450	195,767	65,148,636
Total capital assets, being depreciated	**160,536,828**	**72,465,894**	**195,767**	**232,806,955**
Less Accumulated Depreciation for:				
Land Improvements	10,585,499	855,373	-	11,440,872
Buildings & Structures	45,921,060	22,884,190	-	68,805,250
Machinery & Equipment	9,415,306	724,215	-	10,139,521
Other Improvements	23,512,411	8,550,300	123,986	31,938,725
Total accumulated depreciation	**89,434,276**	**33,014,078**	**123,986**	**122,324,368**
Total capital assets, being depreciated, net of depreciation	**71,102,552**	**39,451,816**	**71,781**	**110,482,587**
Net capital assets	**$ 81,751,839**	**$ 57,220,238**	**$ 3,685,622**	**$ 135,286,455**

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance 1/1/12	Additions	Deletions	Ending Balance 12/31/12
Capital assets, not being depreciated				
Land	$ 9,485,703	$ -	$ 87,673	$ 9,398,030
Construction in Progress	830,790	5,549,867	5,129,400	1,251,257
Total capital assets, not being depreciated	**10,316,493**	**5,549,867**	**5,217,073**	**10,649,287**
Capital assets, being depreciated				
Land Improvements	19,590,346	2,232,491	196,148	21,626,689
Buildings & Structures	71,272,577	1,826,541	-	73,099,118
Machinery & Equipment	9,983,493	314,575	-	10,298,068
Other Improvements	54,638,931	874,022	-	55,512,953
Total capital assets, being depreciated	**155,485,347**	**5,247,629**	**196,148**	**160,536,828**
Less Accumulated Depreciation for:				
Land Improvements	10,502,469	83,030	-	10,585,499
Buildings & Structures	43,825,601	2,095,459	-	45,921,060
Machinery & Equipment	9,276,662	138,644	-	9,415,306
Other Improvements	21,982,842	1,529,569	-	23,512,411
Total accumulated depreciation	**85,587,574**	**3,846,702**	**-**	**89,434,276**
Total capital assets, being depreciated, net of depreciation	**69,897,773**	**1,400,927**	**196,148**	**71,102,552**
Net capital assets	**$ 80,214,266**	**$ 6,950,794**	**$ 5,413,221**	**$ 81,751,839**

C. Construction Commitments - The Port of Grays Harbor has active construction projects and commitments to contractors as of December 31, 2013, as follows:

Project		Expended as of 12/31/13		Remaining Commitment
Grays Harbor Navigation Improvement, Limited Re-Evaluation Report Phase	$	1,326,948	$	53,627
Marina Electrical Upgrade		26,991		80,000
Westport Marina Dredging		45,478		28,293
Westport Marina Outfall		215,316		47,258
Satsop Business Park Sewer System, Phase 2 Design/Construction		58,838		25,494
Airport Master Plan		9,428		170,794
Total	**$**	**1,682,999**	**$**	**405,466**

As of December 31, 2012, the Port's commitments with contractors were as follows:

Project		Expended as of 12/31/12		Remaining Commitment
Grays Harbor Navigation Improvement, Limited Re-Evaluation Report Phase	$	832,448	$	478,210
28th Street Ramp Improvements		114,073		7,933
Backflow Improvements		15,935		15,935
T4 Dolphin Addition		508,048		116,145
R&D Incubator Renovation, Phase 2 & Lab Equipment Acquisition		671,927		62,872
Total	**$**	**2,142,431**	**$**	**681,095**

NOTE 5 - PENSION PLANS

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

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

Plan Description

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

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

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

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

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

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

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

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

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

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

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

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

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

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

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

PERS Plan 2 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.

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

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

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

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

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

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

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

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

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of five percent for each year before age 65.

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

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

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

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but not yet receiving benefits	30,515
Active plan members vested	106,317
Active plan members non-vested	44,273
Total PERS membership	263,347

Funding Policy

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

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

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

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

Members Not Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Government*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Government	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%
** Plan 3 defined benefit portion only.
*** Minimum rate.

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 21,824	$ 458,982	$ 44,985
2012	$ 19,499	$ 286,438	$ 37,116
2011	$ 14,229	$ 235,160	$ 28,536

NOTE 6 - RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; damage to, theft of and destruction of assets or cargo; natural disasters; and employee injuries. To limit exposure, the Port of Grays Harbor purchases property, liability and related insurance coverage annually through a commercial insurance broker which provides coverage against most normal hazards. In comparison to prior years, there were no significant changes in the type and coverage of insurance policies purchased by the Port in 2013. Settlement claims have not exceeded commercial insurance coverage in any of the past three years.

The Port participates in the State of Washington workman's and unemployment compensation programs. Employee medical, dental, vision, long-term disability and life insurance coverages are provided for all employees through standard plans offered by the Washington State Health Care Authority. The Port of Grays Harbor does not administer any of these plans.
On January 1, 2013, the Port merged with the Grays Harbor Public Development Authority (GHPDA), which was a member of Enduris. The Port elected to become a member of Enduris for the purpose of maintaining property insurance coverage for assets transferred by GHPDA to the Port located at the

Satsop Business Park in Elma, WA. Property insurance coverage for all other assets owned by the Port is purchased from a commercial broker and is not included under the Enduris membership agreement.

Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

$1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss;
$250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt - The Port's long-term debt consists of bonds and loans for facility improvements, asset acquisition and expansion. As of December 31, 2013, contracts payable totaled $5,005,305, general obligation bonds payable were $13,696,807, and revenue and refunding bonds payable were $2,471,026. As of December 31, 2012, contracts payable totaled $2,842,812, general obligation bonds payable were $13,692,133, and revenue and refunding bonds payable were $3,765,475.

As a result of the Port’s merger with the Grays Harbor Public Development Authority (GHPDA) on January 1, 2013, the GHPDA transferred all its assets, liabilities and net position to the Port, including contracts payable of $805,940. See Note 14.

Prior to 2013, bond principal payable was reported net of unamortized discounts or premiums. Unamortized debt issue costs and debt refunding costs were recorded as other non-current assets. Bond premiums, discounts and debt issue costs were amortized annually over the life of the bonds and charged to bond interest expense..

In 2013, with the implementation of GASB 65 (see Note 13), bond principal payable continues to be reported net of unamortized discounts or premiums. Debt issue costs are expensed when incurred. Refunding costs are recorded as deferred outflows of resources (see Note 1). Bond premiums, discounts and refunding costs are amortized annually over the life of the bonds and charged to bond interest expense.

All revenue bonds are to be repaid from Port operating revenues, are secured by a pledge of those revenues, and may not be repaid with property taxes.

B. General Obligation and Revenue Bonds -

Bonds issued and outstanding as of December 31, 2013 are as follows:

> 2011 Limited Tax General Obligation Refunding Bonds (Series B), par amount $2,030,000, issued May 2011 to refund the Port's 1999 outstanding LTGO Series B bonds. All issued and outstanding 1999 LTGO Series B bonds were called on June 27, 2011. Proceeds from the 1999 LTGO Series A bonds were used to finance various improvements at the Port's airport and marina, the acquisition of administrative and maintenance equipment, and the acquisition of land in Hoquiam, Washington, reserved for general government purposes. The 2011 LTGO Series B bonds bear interest payable semi-annually at rates of 3.75% and 4.375%, and are due in annual installments of $315,000 to $650,000 through 2026.
>
> 2011 Limited Tax General Obligation Bonds (Series C), par amount $11,735,000, issued May 2011 to finance expansion of rail in the Port's marine terminal cargo yard. The 2011 LTGO Series C bonds bear interest payable semi-annually at rates of 4.0% to 5.75%, and are due in annual installments of $185,000 to $1,725,000 through December 2031.
>
> 2011 Revenue Refunding Bonds, par amount $4,840,000, issued May 2011 to refund the Port's outstanding 1999 Revenue Bonds and 1999 Revenue Refunding Bonds. All issued and outstanding 1999 Revenue and Revenue Refunding Bonds were called on June 27, 2011. Proceeds from the 1999 Revenue Bonds were used to finance various improvements at the Port's Terminal 3 site, as well as projects in the Port's main cargo yard. Proceeds from the 1999 Revenue Refunding Bonds were issued to refund the Port's 1990 outstanding revenue bonds. The 2011 Revenue Refunding Bonds bear interest payable semi-annually at rates of 3.0% and 4.0%, and are due in annual installments of $1,100,000 to $1,305,000 through December 2015.

Bonds issued and outstanding as of December 31, 2012 are as follows:

> 2011 Limited Tax General Obligation Refunding Bonds (Series B), par amount $2,030,000, issued May 2011 to refund the Port's 1999 outstanding LTGO Series B bonds. All issued and outstanding 1999 LTGO Series B bonds were called on June 27, 2011. Proceeds from the 1999 LTGO Series A bonds were used to finance various improvements at the Port's airport and marina, the acquisition of administrative and maintenance equipment, and the acquisition of land in Hoquiam, Washington, reserved for general government purposes. The 2011 LTGO Series B bonds bear interest payable semi-annually at rates of 3.75% and 4.375%, and are due in annual installments of $315,000 to $650,000 through 2026.
>
> 2011 Limited Tax General Obligation Bonds (Series C), par amount $11,735,000, issued May 2011 to finance expansion of rail in the Port's marine terminal cargo yard. The 2011 LTGO Series C bonds bear interest payable semi-annually at rates of 4.0% to 5.75%, and are due in annual installments of $185,000 to $1,725,000 through December 2031.

2011 Revenue Refunding Bonds, par amount $4,840,000, issued May 2011 to refund the Port's outstanding 1999 Revenue Bonds and 1999 Revenue Refunding Bonds. All issued and outstanding 1999 Revenue and Revenue Refunding Bonds were called on June 27, 2011. Proceeds from the 1999 Revenue Bonds were used to finance various improvements at the Port's Terminal 3 site, as well as projects in the Port's main cargo yard. Proceeds from the 1999 Revenue Refunding Bonds were issued to refund the Port's 1990 outstanding revenue bonds. The 2011 Revenue Refunding Bonds bear interest payable semi-annually at rates of 3.0% and 4.0%, and are due in annual installments of $1,100,000 to $1,305,000 through December 2015.

The following is a summary of bonds payable as of December 31, 2013:

	Current Portion	Long-term Portion	Premium / (Discount)	Bal. Payable 12/31/2013
General Obligation Bonds				
2011 LTGO Refunding Series B	$ -	$ 2,030,000	$ (40,157)	$ 1,989,843
2011 LTGO Series C	-	11,735,000	(28,036)	11,706,964
Total GO Bonds	-	13,765,000	(68,193)	13,696,807
Revenue Bonds				
2011 Refunding Bonds	1,305,000	1,100,000	66,026	2,471,026
Total Revenue Bonds	1,305,000	1,100,000	66,026	2,471,026
Total Bonds Payable	$ 1,305,000	$ 14,865,000	$ (2,167)	$ 16,167,833

The following is a summary of bonds payable as of December 31, 2012:

	Current Portion	Long-term Portion	Premium / (Discount)	Bal. Payable 12/31/2012
General Obligation Bonds				
2011 LTGO Refunding Series B	$ -	$ 2,030,000	$ (43,266)	$ 1,986,734
2011 LTGO Series C	-	11,735,000	(29,601)	11,705,399
Total GO Bonds	-	13,765,000	(72,867)	13,692,133
Revenue Bonds				
2011 Refunding Bonds	1,260,000	2,405,000	100,475	3,765,475
Total Revenue Bonds	1,260,000	2,405,000	100,475	3,765,475
Total Bonds Payable	$ 1,260,000	$ 16,170,000	$ 27,608	$ 17,457,608

As of December 31, 2013, the annual debt service requirements to maturity for the general obligation and revenue bonds outstanding are as follows:

	GO BONDS		REVENUE BONDS	
YEAR	Principal	Interest	Principal	Interest
2014	$ -	$ 640,506	$ 1,305,000	$ 96,200
2015	260,000	640,506	1,100,000	44,000
2016	1,520,000	630,106	-	-
2017	1,565,000	569,306	-	-
2018	1,725,000	506,706	-	-
2019-2023	2,745,000	1,973,844	-	-
2024-2028	3,415,000	1,293,931	-	-
2029-2031	2,535,000	296,988	-	-
TOTALS	$ 13,765,000	$ 6,551,893	$ 2,405,000	$ 140,200

As of December 31, 2013, the Port has $484,000 available in sinking funds and reserves as required by bond indentures. At December 31, 2012, the Port had $484,000 available in sinking funds and reserves. Revenue bond covenants further stipulate a debt service coverage ratio under which the Port's net revenue must remain at or above 1.25 times the amount required in any calendar year for payment of (a) principal and interest on outstanding parity bonds (except the principal amount of term bonds) and (b) any sinking fund deposits required for payment of term bonds. At December 31, 2013 the amount required for revenue debt coverage purposes was $1,406,600 and at December 31, 2012 the amount required was $146,600. For the year ended December 31, 2013, the Port's debt service coverage ratio was 5.79 (at December 31, 2012, the debt service coverage ratio was 29.68), and net revenue available for debt service was $8,144,370 at December 31, 2013 and $4,351,686 at December 31, 2012 calculated as follows:

	2013	2012
Operating revenues	$ 30,592,724	$ 24,094,259
Tax revenues (net of LTGO bond debt service & other contract payments totalling $795,441 in 2013 and $1,947,562 in 2012)	1,553,664	298,258
Total revenues available for operations	32,146,388	24,392,517
Operating expenses (not including depreciation)	(24,577,364)	(20,623,379)
Operating income (loss)	7,569,024	3,769,138
Non-operating revenues available for debt service	575,346	582,548
Net revenue available for debt service	$8,144,370	$4,351,686

C. Contracts -

Long-term contracts payable outstanding as of December 31, 2013 are as follows:

	Current Portion	Long-term Portion	Bal. Payable 12/31/2013
CONTRACTS PAYABLE			
Contracts and Notes			
2003 CERB Loan (Warehouse H improvements)	$ 8,560	$ 8,732	$ 17,292
2004 CERB Loan (Warehouse H expansion)	9,092	106,216	115,308
2007 CERB Loan (Satsop Warehouse Construction)	65,661	674,944	740,605
2010 CERB Loan (Terminal 1 Berth Enhancements)	45,500	773,500	819,000
2011 CERB Loan (Marine Terminal Rail, Phase 1)	111,111	1,888,889	2,000,000
2006 GH County Rural Dev. Fund Loan (Wh G)	2,700	5,400	8,100
2013 Craft 3 Loan (Asset Acquisition)	120,958	1,184,042	1,305,000
Total Contracts Payable	$ 363,582	$ 4,641,723	$ 5,005,305

Long-term contracts payable outstanding as of December 31, 2012 are as follows:

	Current Portion	Long-term Portion	Bal. Payable 12/31/2012
CONTRACTS PAYABLE			
Contracts and Notes			
1993 CERB Loan (Warehouse F)	$ 17,518	$ -	$ 17,518
2003 CERB Loan (Warehouse H improvements)	8,392	17,292	25,684
2004 CERB Loan (Warehouse H expansion)	9,002	115,308	124,310
2010 CERB Loan (Terminal 1 Berth Enhancements)	45,500	819,000	864,500
2011 CERB Loan (Marine Terminal Rail, Phase 1)	-	1,800,000	1,800,000
2006 GH County Rural Dev. Fund Loan (Wh G)	2,700	8,100	10,800
Total Contracts and Notes	83,112	2,759,700	2,842,812

The annual debt service requirements to maturity for long-term contracts payable are as follows:

YEAR	Contracts Payable Principal	Interest
2014	363,582	63,605
2015	483,503	71,797
2016	490,622	55,771
2017	504,829	38,865
2018	522,756	20,938
2019-2023	1,297,918	11,297
2024-2028	872,262	648
2029-2031	469,833	-
TOTALS	$ 5,005,305	$ 262,921

D. During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/13	Additions	Reductions	Ending Balance 12/31/13	Due Within One Year
GO Bonds Payable	13,765,000	-	-	13,765,000	-
Revenue Bonds Payable	3,665,000	-	1,260,000	2,405,000	1,305,000
Less: Unamortized					
Premiums/Discounts	27,608	-	29,775	(2,167)	-
Total Bonds Payable	17,457,608	-	1,289,775	16,167,833	1,305,000
Contracts Payable	2,842,812	2,310,940	148,447	5,005,305	363,582
Compensated Absences	471,636	485,491	348,683	608,444	75,957
Unearned Lease Revenues	54,745	130,794	9,112	176,427	-
Net OPEB Obligation	237,122	264,777	-	501,899	-
TOTALS	$ 21,063,923	$ 3,192,002	$ 1,796,017	$ 22,459,908	$ 1,744,539

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/12	Additions	Reductions	Ending Balance 12/31/12	Due Within One Year
GO Bonds Payable	14,965,000	-	1,200,000	13,765,000	-
Revenue Bonds Payable	3,665,000	-	-	3,665,000	1,260,000
Less: Unamortized					
Premiums/Discounts	57,382	-	29,774	27,608	-
Total Bonds Payable	18,687,382	-	1,229,774	17,457,608	1,260,000
Contracts Payable	2,931,233	-	88,421	2,842,812	83,112
Compensated Absences	452,481	281,976	262,821	471,636	45,216
Unearned Lease Revenues	342,903	-	288,158	54,745	-
Net OPEB Obligation	237,122	-	-	237,122	-
TOTALS	$ 22,651,121	$ 281,976	$ 1,869,174	$ 21,063,923	$ 1,388,328

As a result of the Port's merger with the Grays Harbor Public Development Authority (GHPDA) on January 1, 2013, the GHPDA transferred all its assets, liabilities and net position to the Port, including contract payables of $805,940, compensated absences of $72,019 and unearned lease revenues of $130,794. See Note 14.

NOTE 8 - CONTINGENCIES AND LITIGATION

The Port of Grays Harbor has recorded in its financial statements all material liabilities, including an estimate for unresolved situations where, based on available information, management believes it is probable that the Port will have to make some payment. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims in excess of applicable deductible amounts.

The Port of Grays Harbor 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 reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

NOTE 9 - UNEARNED CREDITS

In accordance with generally accepted accounting principles for regulated businesses, the Port has the following unearned receipts which will be amortized over the terms as noted:

Item Description	Issue Year	Amortization Method	Unamortized Amount 12/31/13	Unamortized Amount 12/31/12
Prepaid lease revenue	1994	Straight-line, 50 year term	$ 51,901	$ 53,631
Prepaid lease revenue	1994	Straight-line, 48 1/2 year term	130,794	-
Prepaid boat launch revenue	2001	Straight-line, 20 year term	2,844	3,219
Prepaid moorage revenue	2013	Straight-line, 1 year term	230,025	227,076
Prepaid vessel loading revenue	2013	Vessel tonnage, 1 year term	117,312	-
Prepaid lease revenue	2013	Straight-line, term varies Based on individual lease terms All 1 year or less	842,694	257,271
Total unearned credits			**$ 1,375,570**	**$ 541,197**

As a result of the Port's merger with the Grays Harbor Public Development Authority (GHPDA) on January 1, 2013, the GHPDA transferred all its assets, liabilities and net position to the Port, including unearned credits (prepaid lease revenues) of $144,762. See Note 14.

NOTE 10 – RESTRICTED COMPONENT OF NET POSITION

The Port's statement of net position reports as of December 31, 2013, $10,097,364 is restricted by enabling legislation and bond covenants. As of December 31, 2012, $7,117,595 was restricted.

A. Capital Improvement Funds - In 1980, the Commissioners of the Port of Grays Harbor restricted certain funds of the Port for future capital improvement projects by resolution adoption. The fund has subsequently been increased from time to time through funding of depreciation expense, transfers from unrestricted funds, and the collection of ad valorem taxes legally restricted for industrial development purposes. As of December 31, 2013, $9,613,364 of net position are reserved for capital improvement purposes, including necessary repairs, renewals and replacement of the operating facilities, navigation facilities, and properties of the Port to carry out the comprehensive scheme of harbor improvements and industrial development of the Port. At December 31, 2012, $6,633,595 was in reserve.

B. Bond Reserve Fund - Funds totaling $484,000 at December 31, 2013 and $484,000 at December 31, 2012 are restricted for revenue bond debt service in accordance with bond covenants.

NOTE 11 - ENVIRONMENTAL REMEDIATION OBLIGATIONS

Costs incurred for environmental remediation that extend the life, increase the capacity, or improve the safety or efficiency of property owned by the Port are capitalized. The Port expenses costs which do not meet these criteria and accrues for obligations associated with such environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change.

A. Chevron Oil Site (Westport, WA) – This site is currently and has been historically used by tenants operating a marine fuel facility. No financial liability has been recorded by the Port for environmental remediation of this site, since the private operators have and continue to take full responsibility for all phases of the remediation effort.

B. Hungry Whale Site (Westport, WA) – This site is currently and has been historically used by tenants operating a vehicle fuel facility. During 2007, the Port of Grays Harbor, in cooperation with the Washington State Department of Ecology (DOE), completed an environmental site assessment and developed the phase 1 remediation plan. During 2012 and 2013 groundwater, soil vapor, and indoor air concentrations were monitored and tested. The Port expects to continue monitoring and characterization work into 2014 in order to develop and conduct a feasibility plan with approval by DOE. As of December 31, 2013, net costs totaling $25,000 have been accrued as a current liability to continue monitoring activity and conduct the feasibility study. Based on the results of the feasibility study, a final clean-up plan is expected to be developed with DOE in 2014. As of December 31, 2012, net costs totaling $50,000 were accrued as a current liability for site monitoring. Further remediation costs cannot be reasonably estimated at this time.

NOTE 12 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. The statement establishes standards for the measurement and recognition of "other post employment benefits" (OPEB). The provisions of this statement are effective for fiscal years beginning after December 15, 2008, and have been implemented prospectively by the Port in accordance with the statement.

A. Plan Description - The Port participates in the Public Employees Benefit Board (PEBB) health plan administered by the State of Washington Health Care Authority. It is a multiple employer plan which provides both active employee benefits and elective post employment benefits. Port retirees are eligible to participate in the group plan on a self-pay basis.

B. Funding Policy – Group premium rates are established by the PEBB and paid on a monthly basis by the Port based upon the established rates for its active employee membership. Retirees make premium payments on a self-pay basis. Blending retiree and active employee rates creates an implicit rate subsidy and future post-employment benefit liability. The Port has recorded its unfunded Net OPEB Obligation (NOO) in its financial statements beginning with the year ended December 31, 2009.

C. OPEB Measurement Method - The Port has used the alternative measurement method permitted under GASB Statement No. 45 for employers with fewer than one hundred plan members to determine the Actuarial Accrued Liability (AAL). A single retirement age of 62.20 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the Public Employee Retirement System Plan 2 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Mercer and used by OSA in the state-wide PEBB study performed in 2008. The results were based on group 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 Obligation (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.

D. OPEB Measurements and NOO Calculation – The net OPEB obligation (NOO) is updated periodically by the Port in accordance with GASB Statement No. 45. The Annual OPEB Cost and NOO as of December 31, 2013 is as follows:

Annual OPEB Cost	
Annual Required Contribution	$298,322
Net OPEB Obligation Interest	10,670
Net OPEB Obligation Amortization	(14,557)
Annual OPEB Cost	**$294,435**
Net OPEB Obligation (NOO)	
Starting NOO	$237,122
Annual OPEB Cost	294,435
Contributions	(29,658)
Net OPEB Obligation (NOO)	**$501,899**

The Annual OPEB Cost and NOO as of December 31, 2012 is as follows:

Annual OPEB Cost	
Annual Required Contribution	$168,486
Net OPEB Obligation Interest	4,416
Net OPEB Obligation Amortization	(6,024)
Annual OPEB Cost	**$166,878**
Net OPEB Obligation (NOO)	
Starting NOO	$98,123
Annual OPEB Cost	166,878
Contributions	(27,879)
Net OPEB Obligation (NOO)	**$237,122**

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE – In 2013, the Port implemented GASB 65 – Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The implementation of GASB 65 has been adopted retroactively by restating the financial statements for all periods presented. The beginning balance of net position was restated as of January 1, 2012 for unamortized debt issuance costs of $169,695 and the 2012 increase in net position has been adjusted for the $22,741 of debt issue costs amortization previously recognized during 2012. Also, unamortized refunding costs previously reported under other non-current assets, totaling $45,136 as of December 31, 2013 and $68,685 as of December 31, 2012, are now reported under deferred outflow of resources (see Note 1).

NOTE 14 - OTHER DISCLOSURES

A. Major Receivables – In 2013, $10,578,099 (34.6%) of the Port's operating revenues were billed to two major customers, and in 2012, $11,236,258 (46.6%) of operating revenues were billed to two major customers.

B. Extraordinary Item – Government Merger – In October 2012, the Grays Harbor Public Development Authority (GHPDA) Board of Directors outlined terms to transfer all assets, liabilities and operations of the Satsop Business Park to the Port of Grays Harbor, and the Port Commission accepted the tender. The GHPDA transferred all of its assets and liabilities to Port ownership on January 1, 2013, and the Port assumed responsibility for the management, operations and further development of the Satsop Business Park.

Merger of the GHPDA into the Port offered greater efficiency, depth of expertise and economy of scale in their mutual pursuit of economic development and job creation for the Grays Harbor community.

The initial opening balances of the Satsop Business Park's assets, liabilities, and net position, as of the beginning of the period, were determined on the basis of the carrying values reported in the separate financial statement of the GHPDA as of December 31, 2012. Adjustments were made to the opening balances to bring them into conformity with the Port's accounting policies. The combined balance of the Satsop Business Park and the Port of Grays Harbor at January 1, 2013 is as follows:

	Satsop Business Park	Adjustments* Debit	Credit	Adjusted Satsop Business Park	Port of Grays Harbor	1/1/2013 Opening Balance Totals
ASSETS						
Current assets	$ 6,008,929	$ 13,427	$ 29,877	$ 5,992,479	$ 17,901,810	$ 23,894,289
Capital assets, net	55,248,840	-	-	55,248,840	81,751,839	137,000,679
Other assets	-	29,877	-	29,877	1,447,639	1,477,516
Total assets	61,257,769	43,304	29,877	61,271,196	101,101,288	162,372,484
LIABILITIES						
Current liabilities	673,040	202,812	-	470,228	3,890,447	4,360,675
Noncurrent liabilities	740,605	-	202,812	943,417	19,725,595	20,669,012
Total liabilities	1,413,645	202,812	202,812	1,413,645	23,616,042	25,029,687
NET POSITION						
Net investment in capital assets	54,442,900	-	-	54,442,900	61,406,203	115,849,103
Restricted	-	-	-	-	7,117,595	7,117,595
Unrestricted	5,401,224	-	13,427	5,414,651	8,961,448	14,376,099
Total net position	$ 59,844,124	$ -	$ 13,427	$ 59,857,551	$ 77,485,246	$ 137,342,797

*Adjustments to initial balances of the Satsop Business Park's assets, liabilities and net position consisted of the following:

- $12,360 market value adjustment of the U.S. Agency investments were not recorded by the GHPDA at December 31, 2012; affects current assets and net position
- $1,067 interest receivable on a tenant payment agreement was not recorded by the GHPDA at December 31, 2012; affects current assets and net position
- Reclassification of the long-term portion of contracts receivable from current asset to non-current asset in the amount of $29,877
- Reclassification of $202,812 from current liabilities to non-current liabilities for the long-term portion of unearned revenue and compensated absences.

C. Subsequent Event – Grays Harbor Navigation Improvement Project – On May 13, 2014 the Port Commission authorized the Port's Executive Director to take all necessary steps to support construction of the Grays Harbor Navigation Channel Impromement Project. The U.S. Army Corps of Engineers (USACE) recently completed a Limited Re-evaluation Report which recommends deepening the navigation channel to the federally authorized depth of 38 feet at mean lower low water (MLLW). The Port's financial commitment for the construction project is estimated to be $4.6 million spread over two years. The Port's financial obligation is contingent upon Federal approval of the USACE cost share estimated to be $14 million.

D. Operating Divisions – The Port of Grays Harbor groups its operating activity into business divisions, each with identifiable operating revenues, operating expenses and capital assets as follows: marine terminals; marina; airport; industrial properties; Satsop Business Park, pilotage services; and ship assist services. Other assets, liabilities, net position, nonoperating revenues and nonoperating expenses are recorded on a Port-wide basis only, and are not identifiable to a particular division.

Operating division data for the year ended December 31, 2013 is presented below (in thousands):

	Marine Terminal	Properties	Satsop Business Park	Marina	Airport	Pilotage Services	Other	Total
NET CAPITAL ASSETS:								
Balance 1/1/2013	$ 51,835	$ 24,739	$ -	$ 1,851	$ 695	$ 36	$ 1,345	$ 80,501
Depreciation	(2,571)	(1,022)	(2,221)	(203)	(47)	(23)	(157)	(6,244)
Additions	2,829	258	627	3	-	115	73	3,905
Dispositions	(72)	-	-	-	-	-	-	(72)
Transfers*	-	-	55,034	-	-	-	-	55,034
Balance 12/31/2013	$ 52,021	$ 23,975	$ 53,440	$ 1,651	$ 648	$ 128	$ 1,261	$ 133,124
OPERATING ACTIVITY:								
Operating Revenues	$ 21,068	$ 2,549	$ 2,908	$ 966	$ 222	$ 1,268	$ 1,612	$ 30,593
Operating Expenses	(15,768)	(539)	(2,387)	(674)	(314)	(1,079)	(1,578)	(22,339)
General & Admin Expenses	(1,224)	(223)	(549)	(83)	(30)	(103)	(27)	(2,239)
Depreciation	(2,666)	(1,028)	(2,230)	(206)	(48)	(25)	-	(6,203)
Operating Income (Loss)	1,410	759	(2,258)	3	(170)	61	7	(188)
NON-OPERATING ACTIVITY:								
Tax Revenues	-	-		-	-	-	2,319	2,319
Capital Contributions	-	-		-	-	-	1,632	1,632
Non-operating Revenues (net of expenses)	-	-		-	-	-	(318)	(318)
NET INCOME (LOSS)	$ 1,410	$ 759	$ (2,258)	$ 3	$ (170)	$ 61	$ 3,640	$ 3,445

* On January 1, 2013, the Grays Harbor Public Development Authority transferred all its assets, liabilities and net position to the Port of Grays Harbor, including capital assets of $81,803,865 less accumulated depreciation of $26,769,838. See Note 14B.

Operating division data for the year ended December 31, 2012 (in thousands) is as follows:

	Marine Terminal	Properties	Marina	Airport	Pilotage Services	Other	Total
NET CAPITAL ASSETS:							
Balance 1/1/2012	$ 49,804	$ 25,376	$ 2,043	$ 804	$ 56	$ 1,300	$ 79,383
Depreciation	(2,234)	(1,025)	(227)	(112)	(22)	(226)	(3,846)
Additions	4,265	672	35	3	2	271	5,248
Dispositions	-	(284)	-	-	-	-	(284)
Balance 12/31/2012	$ 51,835	$ 24,739	$ 1,851	$ 695	$ 36	$ 1,345	$ 80,501
OPERATING ACTIVITY:							
Operating Revenues	$ 18,193	$ 2,489	$ 926	$ 278	$ 972	$ 1,236	$ 24,094
Operating Expenses	(15,468)	(508)	(685)	(326)	(810)	(1,213)	(19,010)
General & Admin Expenses	(1,185)	(223)	(59)	(36)	(88)	(22)	(1,613)
Depreciation	(2,410)	(1,035)	(231)	(113)	(25)	-	(3,814)
Operating Income (Loss)	(870)	723	(49)	(197)	49	1	(343)
NON-OPERATING ACTIVITY:							
Tax Revenues	-	-	-	-	-	2,246	2,246
Capital Contributions	-	-	-	-	-	824	824
Non-operating Revenues (net of expenses)	-	-	-	-	-	1,774	1,774
NET INCOME (LOSS)	$ (870)	$ 723	$ (49)	$ (197)	$ 49	$ 4,845	$ 4,501

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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

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

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

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Deputy Director of Quality Assurance	**Barb Hinton**
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Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

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