Washington State Auditor's Office
Troy Kelley
Integrity • Respect • Independence

Financial Statements Audit Report

Port of Longview

Cowlitz County

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

Published September 15, 2014

Report No. 1012533

Washington State Auditor
Troy Kelley

September 15, 2014

Board of Commissioners
Port of Longview
Longview, Washington

Report on Financial Statements

Please find attached our report on the Port of Longview'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

Table of Contents

Port of Longview
Cowlitz County
January 1, 2013 through December 31, 2013

Status of Prior Audit Findings

Port of Longview
Cowlitz County
January 1, 2013 through December 31, 2013

The status of findings contained in the prior years' audit reports of the Port of Longview is provided below:

1. The Port's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.

Report No. 1011729, dated March 4, 2014

Background

During the 2012 audit, we found the Port had not researched and consider applicable accounting standards leading to omissions and errors within their financial statements. In addition, we noted concerns over the Port's review process for the prepared financial statements.

Status

The Port has made progress in implementing improvements to their financial reporting process; however, during the current audit, we identified some less significant concerns. We will review the Port's progress during our next audit.

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 Longview
Cowlitz County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Longview
Longview, 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 Longview, Cowlitz County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 4, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the Port implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Port declined to report an environmental liability due to ongoing litigation, for the year ended December 31, 2013. Accordingly, our report was modified to reflect a qualified opinion on the fair presentation of the financial statements for this departure from accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the Port in a separate letter dated September 8, 2014.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 4, 2014

Independent Auditor's Report on Financial Statements

Port of Longview
Cowlitz County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Longview
Longview, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Longview, Cowlitz County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 7.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The Port declined to report an environmental liability, due to ongoing litigation. The presentation of such a liability is required by accounting principles generally accepted in the United States of America. The amount by which this departure would affect the liabilities and net position of the Port has not been determined.

Qualified Opinion

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

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2014 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 4, 2014

Financial Section

Port of Longview
Cowlitz County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

PORT OF LONGVIEW

Management's Discussion and Analysis
Years ended December 31, 2013 and 2012

INTRODUCTION

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

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three components: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows.

The notes provide additional information that is essential to a full understanding of the data provided in the Port's financial statements. The notes to the financial statements can be found following the financial statements of this report.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position tell us whether the Port's financial position has improved as a result of the year's activities. The Statement of Net Position presents information on all of the Port's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Fund Net Position show how the Port's net position changed during the year. These changes are reported 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 only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

FINANCIAL ANALYSIS

Condensed Financial Position Information

The Statement of Net Position reflects the financial position of the Port at year end. Financial position is represented by the difference between assets owned and liabilities owed at a specific point in time, with the difference between the two reported as net position. As previously noted, changes in net position can be a good indicator of the Port's financial position.

Financial Highlights

- Total assets of the Port exceeded its liabilities by $84.655 million in 2013, reported as total net position.
  Total net position increased by $4.2 million as compared to the prior year as a result of the increase in capital assets and a decrease in liabilities.
- Total cash and investments increased by $835,773 from 2012, primarily from proceeds of an Insurance settlement.
- As debt is paid down and cost cutting measures are implemented, total liabilities decreased $3.8 million from the prior year.

The following condensed financial information provides an overview of the Port's assets, liabilities, and net position for fiscal years ended December 31.

STATEMENT OF NET POSITION

	2013	2012
CAPITAL ASSETS		
Current, restricted and noncurrent assets	$16,299,055	$21,105,768
Capital assets, net	100,142,426	94,966,374
Total Assets	116,441,481	116,072,142
LIABILITIES		
Current liabilities	4,529,696	5,022,773
Noncurrent liabilities	27,256,789	30,613,052
Total Liabilities	31,786,485	35,635,825
NET POSITION		
Net investment in capital assets	71,167,374	62,359,648
Restricted	2,889,406	2,367,649
Unrestricted	10,598,216	15,709,020
Total Net Position	$84,654,996	$80,436,317

Summary of Operations and Changes in Fund Net Position

The Statement of Revenues, Expenses, and Changes in Fund Net Position shows how the Port's net position changed during the current and previous fiscal year as a result of operations. The Port employs an accounting method that records revenue and expenses when they are incurred, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement may affect future period cash flows, e.g. uncollected receivables.

Revenues:

- Total operating revenues in 2013 decreased by $2.099 million a change of 6.6% from 2012. Marine terminal charges comprise 96.9% of total operating revenues with the balance earned from property leases and rentals.
- Diversification of cargoes through the Port of Longview's multi-purposes facilities has contributed toward a strong performance in 2013. The Port handles all types of bulk, breakbulk, and heavy-lift commodities, as well as project based industrial products and equipment.
- During 2013, the Port maintained a competitive position in the maritime business. The Port had 247 vessel calls. Overall, import cargo of 78,640 metric tons, was down approximately 51% from the previous year's total of 159,253 million metric tons. Export cargo was up overall by 21%, from 5.71 million metric tons in 2012 to 7.26 million metric tons in 2013.

  Export cargo shipments continued to dominate the overall maritime activity in 2013. Grain export at Berth 9, log shipments, and bP's calcined coke exports continued to help the Port achieve record volumes.

  Import shipments were weaker in 2013, as the Port saw a decrease in import dry bulk commodities such as calcined petroleum coke, iron oxide fines used in the energy sector markets, and project cargo commodities.

  The Port saw an increase of domestic steel handling, up from 25,695 metric tons in 2012, to 26,697 metric tons in 2013.
- The combined total tonnage of imports and exports handled at the Port in 2013 increased 177% setting an all-time record of 7.4 million metric tons of cargo.

Expenses:

- Total 2013 operating expenses, before depreciation, decreased by $822,967, 3.2% from 2012 expenses as a result of close management of ongoing expenses and the mixture of cargo handling activities. Operating income, after depreciation, was $3.952 million at December 31, 2013 as compared to a $5.146 million at 2012 year end.

Non-Operating:

- 2013 total non-operating revenue (expenses) increased $777,570 from 2012, resulting from an insurance settlement and reduced interest and bond issuance expenses related to a revenue bond refunding.

.

A summarized comparison of the Port's Statement of Revenues and Expenses and Changes in Fund Net Position at fiscal years ending December 31 follows:

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	2013	2012
OPERATING REVENUES		
Marine terminal	$30,188,690	$32,760,931
Property lease/rental	1,514,007	1,034,007
Sales and miscellaneous	0	6,989
Total operating revenues	31,702,697	33,801,927
OPERATING EXPENSES		
General operations	18,460,534	19,421,930
Maintenance	2,939,511	2,906,762
General and administrative	3,555,087	3,449,407
Depreciation	2,795,088	2,877,627
Total operating expenses	27,750,220	28,655,726
Operating Income	$ 3,952,477	$ 5,146,201
NON-OPERATING REVENUES (EXPENSES)		
Ad valorem taxes	$1,458,704	$ 1,561,425
Investment income	18,767	17,524
Interest expense	(1,357,617)	(1,654,748)
Gain/<Loss> on disposition of asset	(73,836)	0
Other income (expense), net	721,033	65,280
Net non-operating revenues (expenses)	767,051	(10,519)
Change in net position	$4,719,528	$ 5,135,682
Capital Contributions	566,476	0
Increase (decrease) in net position	5,286,004	5,135,682
Net position at beginning of year	$80,436,317	$75,300,635
Change in Accounting Principle	(702,038)	0
Prior Period Adjustment	(365,287)	0
Net position at end of year	$84,654,996	$80,436,317

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Port's investment in capital assets for its business activities as of December 31, 2013, totaled $100.1 million, net of accumulated depreciation. The Port's investment in capital assets includes land; berths, dolphins, floats; buildings; improvements (other than buildings); machinery and equipment; construction in process and intangible assets. The total increase in the Port's investment in capital assets, not including construction in progress, for the year ended December 31, 2013 was $4.1 million, or 2.7%. Major capital asset events during 2013 included the following:

- A variety of improvements and repairs were made to facilities, general plant systems, roadways, rail lines, environmental systems and real property.
- Several pieces of new cargo handling equipment were acquired.

Additional information on the Port's capital assets activity may be found in Note 4 in the notes to the financial statement.

Long-Term Debt
At December 31, 2013, long-term debt outstanding totaled nearly $27.257 million. Of this amount, $12.144 million is general obligation debt, $11.025 million represents revenue bonds secured by revenue sources of the Port, and $1.031 is for employee leave benefits. Other general debt includes loans payable to other governmental agencies and totals $3.057 million.

Additional information on the Port's long-term debt activity may be found in Note 9 of this report.

Economic Factors

Throughout 2013, the Port continued to maintain a competitive position in the maritime business.

The top five trading partners in 2013 included China, Philippine Islands, Japan, Korea and Australia. Other trading partners included Brazil, New Zealand, Vietnam, Canada, Taiwan, Indonesia, Saudi Arabia, Yemen, Thailand and more. Commodities included bulk agricultural products, logs, steel and steel products, soda ash, calcined coke, potash, bentonite clay and other bulk products.

The success of the Port comes in part from combined efforts of our customers, labor force, strategic partners and the ability to adapt quickly to changing markets. Diversification has been key to the success of the Port.

Requests for Information
This financial report is designed and intended to provide a general overview of the Port of Longview'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 Longview, Chief Financial Officer, P.O. Box 1258, Longview, WA 98632.

MCAG No. 1707

PORT OF LONGVIEW

STATEMENT OF NET POSITION

For the Year Ended December 31, 2013

ASSETS

	2013
Currrent Assets:	
Cash and Cash Equivalents	$8,588,597
Accounts Receivable (Net)	4,293,270
Taxes Receivable	97,515
Restricted Assets	2,889,406
Prepayments	292,312
TOTAL CURRENT ASSETS	16,161,100
Noncurrent Assets:	
Work for Others	137,955
Capital Assets Not Being Depreciated:	
Land	33,781,016
Construction in Progress	3,134,942
Capital Assets Being Depreciated:	
Berths, dophins, floats	28,243,611
Buildings and structures	36,947,056
Machinery and equipment	26,777,427
Other Improvements	27,855,639
Intangible Assets	14,147
Less: Accumulated depreciation	(56,611,412)
Total Capital Assets (Net)	100,142,426
TOTAL NONCURRENT ASSETS	100,280,381
TOTAL ASSETS	**$116,441,481**

LIABILITIES

Current Liabilities:	
Warrants Payable	$298,597
Accounts Payable	1,074,555
Bonds, Notes and Loans Payable	2,749,063
Accrued Interest Payable	270,250
Other Current Liabilities	137,231
TOTAL CURRENT LIABILITIES	4,529,696
Noncurrent Liabilities	
Compensated Absences	604,957
Other Post Employment Benefits	425,843
Bonds, Notes and Loans Payable	26,225,989
TOTAL NONCURRENT LIABILITIES	27,256,789
TOTAL LIABILITIES	**31,786,485**
NET POSITION:	
Net Investment in Capital Assets	71,167,374
Restricted	2,889,406
Unrestricted	10,598,216
TOTAL NET POSITION	**$84,654,996**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF LONGVIEW

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the Year Ended December 31, 2013

	2013
OPERATING REVENUES:	
Marine terminal operations	$30,188,690
Property lease/rental operations	1,514,007
Sales and miscellaneous revenues	0
Total Operating Revenues	31,702,697
OPERATING EXPENSES:	
General operations	18,460,534
Maintenance	2,939,511
General and administrative	3,555,087
Depreciation	2,795,088
Total Operating Expenses	27,750,220
Operating Income (Loss)	3,952,477
NONOPERATING REVENUES (EXPENSES):	
Investment income	18,767
Taxes levied for:	
Capital improvements	346,533
Debt service principal/interest	1,112,171
Gain <loss> on disposition of assets	(73,836)
Interest expense	(1,357,617)
Other Nonoperating Revenues	1,058,183
Other Nonoperating Expenses	(337,150)
Total Nonoperating Revenues (Expenses)	767,051
Income (loss) before capital contributions & special items	4,719,528
Capital contribution	566,476
Increase (decrease) in net position	5,286,004
Net position - January 1	80,436,317
Change in Accounting Principle	**(702,038)**
Prior Period Adjustment	**(365,287)**
Net position - December 31	**$84,654,996**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF LONGVIEW

STATEMENT OF CASH FLOWS

For Year Ended December 31, 2013

		2013
Cash flows from operating activities		
Cash received from customers	$	32,702,706
Cash received from other operating activities		50,438
Cash payment for goods and services		(16,487,958)
Cash payments to employees		(8,743,229)
Proceeds from insurance		950,000
Other payments made		(218,778)
Net cash provided by operating activities		8,253,179
Cash flows from noncapital financing activities		
Proceeds from unrestricted property taxes		427,111
Net cash provided (used) by noncapital financing activities		427,111
Cash flows from capital and related financing activities		
Proceeds from taxes - restricted for debt		1,144,864
Receipts from tenants for debt payment		200,212
Contributions from others for capital outlay		298,650
Proceeds from bond refunding		5,211
Proceeds from capital related debt		0
Proceeds from sale of capital assets		73,793
Payment on loans and notes		(622,345)
Payment on capital lease		(79,216)
Purchase of capital assets		(4,495,302)
Payment of bonds		(2,935,781)
Interest and fiscal charges paid		(1,453,370)
Net cash used for capital and related financing activities		(7,863,284)
Cash flows from investing activities		
Receipts of interest and dividends		18,767
Net cash provided from investing activities		18,767
Net increase (decrease) in cash		835,773
Cash and cash equivalents - January 1		10,642,230
Cash and cash equivalents - December 31	$	11,478,003
Reconciliation to statement of net assets		
Cash & cash equivalents - unrestricted		8,588,597
Cash & cash equivalents - restricted for capital		2,889,406
Cash and cash equivalents - December 31	$	11,478,003

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF LONGVIEW
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2013

		2013
Reconciliation of operating income to net cash provided (used) by operating activities		
Net operating income (loss)	$	3,952,477
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation		2,795,088
Change in assets and liabilities:		
Decrease (increase) in accounts receivable		1,000,010
Decrease in other operating receivables		
Increase (decrease) in accounts payable		(518,392)
Decrease (increase) in prepaid items		(36,409)
Increase (decrease) in other payables		278,746
Other receipts (payments)		781,659
Total adjustments		4,300,702
Net cash provided by operating activities	$	8,253,179
Non Cash Transactions		
Capital debt decreased for reduction of project	$	392,056
Old debt paid with refunding bonds		8,823,460
Refunding debt issued		(8,823,460)
Contribution of land by other governments		267,826

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The Port of Longview (The Port) was formed and established in 1921 and operates under the laws of the state of Washington applicable to a public port district, as a municipal corporation under the provisions of Chapter 53 RCW. The Port district resides within Cowlitz County, Washington and comprises territory less than the entire county. The Port is located on the Columbia River.

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

A. Reporting Entity

The Port is a special purpose government and independent of Cowlitz County, and provides marine terminal and property lease/rental operations to the general public. It is supported primarily through user charges. The Port is a primary government and does not have any component units.

The Port is governed by a three member Board of Commissioners (the Commission) elected by Port district voters. As policy makers, they delegate certain administrative authority to the Chief Executive Officer to conduct operations of the Port. The Commission possesses final decision-making authority and is held primarily accountable for decisions.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Port's activities, however, the component unit, which has minimal cash, no fixed assets or liabilities, has not been blended into the current statements.

The Industrial Development Corporation of the Port of Longview, a public corporation, is authorized to facilitate the issuance of tax-exempt nonrecourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they were issued. The Port's Board of Commissioners governs the Industrial Development Corporation. The Industrial Development Corporation's account balances and transactions have not been included as a blended unit within the Port's 2013 financial statements.

The Ports financial resources are provided by marine terminal facilities and property lease/rentals.

B. Basis of Accounting and Presentation

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

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

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

The Port distinguishes between operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses result from provided services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the district are charges to customers for marine terminals and property leases. Operating expenses for the district include the cost of labor, administrative expenses and depreciation on capital assets used for the benefit of customers. All revenues and expenses not related to providing services to customers are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2013 the Treasurer was holding $11,478,003 in cash and short-term residual investments. This amount is classified on the statement of net position as cash and cash equivalents.

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

2. Receivables

Taxes receivable consist of property taxes and related interest and penalties (see Note 3). Accounts receivable consist of amounts owed by customers and tenants for goods, services, leases, and rentals rendered at the end of the year, but unpaid. A reserve for doubtful accounts is established at total outstanding 2012 accounts receivable as of December 31, 2013. Uncollected items are written off after three years, except those in litigation. Contracts receivable consist of amounts owed on open accounts from private individuals for real property purchases.

3. Amounts Due From Other Governmental Units

These accounts include amounts due to or from other governments for grants, appropriations and entitlements.

4. Inventories

It has been determined not cost efficient to maintain an inventory. It is the policy of the Port of Longview to expense supplies and most spare parts for equipment and facility repairs as purchased. An inventory of such items would not be material in relation to either financial position or results of operations.

5. Restricted Assets and Liabilities

In accordance with bond resolutions (and certain related agreements), separate restricted accounts are required to be established. These accounts (assets) contain resources for debt service. Specific debt service reserve requirements are described in Note 9.

Funds restricted as to use at December 31, 2013 are:

	2013
General Obligation Bonds	
2008 G.O. Ref. Bond Redemption Fund A&B	$310,933
2009 G.O. Ref. Bond Redemption Fund AB&C	62,001
Revenue Bonds	
Revenue Debt Service Bond Fund	833,440
1998 Revenue Bond Reserve Fund C	407,949
1999 Revenue Bond Fund B	3,013
1999 Revenue & Refunding Bond Fund A	1,266,859
2013 Revenue Refunding Bond Fund A	2,921
2013 Revenue Refunding Bond Fund B	2,290
Total Restricted Assets	$2,889,406

These represent sinking funds and reserve requirements as contained in the various indentures. There are a number of other limitations and restrictions contained in various bond indentures. The Port is in compliance with all significant limitations and restrictions.

6. Capital Assets and Depreciation - See Note 4.

7. Employee Leave Benefits
   Employee leave benefits are accrued leave payable, such as vacation and sick leave, to employees of the Port. The Port accrues and records unpaid leave for compensated absences as a liability when incurred.

   Sick leave is earned at the rate of 8 hours per month of continuous employment, without limit. Upon termination of employment (discharge, death, resignation or retirement), an employee (or in the case of death, the employee's beneficiary) shall be paid for all such leave then accrued; provided however, that such employee shall not in any case be paid for more than 960 hours of sick leave. Accrued sick leave amounts to $483,149 at December 31, 2013.

   Vacation is earned in amounts varying from 10 days during the first 5 years, to 25 days after 20 years, and 30 days after 40 years of employment. Vacation must be taken within the anniversary year following its accrual. Vacation pay is payable upon termination of employment. In addition, two floating holidays are accrued per year after the first year of employment. At December 31, 2013 the recorded liability for unpaid vacation was $121,808.

8. Other Accrued Liabilities
   These accounts consist of accrued wages, accrued employee benefits, and accrued payroll related liabilities.

9. Long-Term Debt - See Note 9.

10. Deferred Compensation Plan
    The Port offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Port employees, permits them to defer a portion of their salary until future years. The Plan is fully funded and held in an outside trust.

D. Recent Accounting Pronouncements

In June 2011, the Government Accounting Standards Board issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The objective of this statement is to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The provisions of the guidance will change where the deferred outflows and deferred inflows are presented on the statement of net position. The guidance is effective for years beginning after December 15, 2011. The Port has adopted this guidance for the fiscal year ending December 31, 2012, with no impact on the financial position and results of operations.

In March, 2012, the Government Accounting Standards Board issued GASB No. 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 classified as assets and liabilities. The guidance is effective for years beginning after December 12, 2012. The Port has adopted this guidance for the fiscal year ending December 31, 2013, with minimal impact on the financial position and results of operations.

In June, 2012 the Governmental Accounting Standards Board issued GASB No. 67 *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25.* This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creates additional transparency. This guidance is effective for fiscal years beginning after June 15, 2013.

NOTE 2 – DEPOSITS AND INVESTMENTS

All of the Port's deposits and investments are insured or registered and are held by the Port or its agent in the Port's name.

The Cowlitz County Treasurer is empowered to act as fiduciary for the Port and other taxing districts within the County. Duties include the deposit and prudent investment of public funds as legally prescribed by the laws of the State of Washington.

As required by state law, all deposits and investments of the Port's funds are direct obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW. Qualified bank depositories are those specified by the Washington Public Deposit Protection Commission. The Port has not experienced any losses in such accounts.

Investments
All investments are stated at fair value. As of December 31, 2013 the Port had the following investments:

Investment Maturities Less than 1 Year	**2013**
State Local Government Investment Pool – Passbook Account	$11,006,668

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities. None of the Port's total position in investments at December 31, 2013 is exposed to custodial credit risk.

Management intends to hold the time deposits and securities until maturity, thus a valuation allowance account was not established.

NOTE 3 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in Cowlitz County for all taxing authorities. Taxes are due in two equal installments on April 30 and October 31. Collections are distributed at the end of each month to the Port by the County Treasurer. Taxes become an enforceable lien on January 1 on properties listed as of the prior May 31. Assessed values are established by the County Assessor at 100% of fair market value, according to the highest and best use of the property. A revaluation of property is required every four years (or six years if values are uniformly adjusted every year).

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

Property taxes are recorded as a receivable and classified as non-operating revenue when levied on January 1. Most property taxes are collected during the year of levy. During the year, property tax revenues are recognized in the month when the County Treasurer collects cash. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. (State law allows for the sale of property for failure to pay taxes.)

The Port is permitted by law to levy up to 45 cents per $1,000 of assessed valuation for general Port purposes. This amount may be reduced for any of the following reasons:

1. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to six percent per year, after adjustments for new construction. If the assessed valuation increases by more than six percent due to revaluation, the levy rate will be decreased.

2. The Port may voluntarily levy taxes below the legal limit.

The 2013 total tax levy of $1,460,978 was 21.8 cents per $1,000 of the assessed valuation. On December 31, 2013 outstanding taxes totaled $97,515.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

A. Capital assets (defined by the Port as those in excess of $3,000) are tangible assets of a significant value, have a useful life extending beyond one year, and are intended to be held or used in operations. Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method. Estimated useful lives of various components are as follows:

Dock Structures	50 years
Buildings and Structures	20-50 years
Other Improvements	10-50 years
Cranes and Machinery	30 years
Autos and Trucks	5 years
Other Equipment	5-10 years

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

	Restated Beg Bal		Decreases	End Balance
	01/01/2013	Increases	and Transfers	12/31/2013
Capital assets, not being depreciated:				
Land and land reclamation	$33,323,447	$457,569		$33,781,016
Construction in process	2,611,894	1,509,127	$986,079	3,134,942
Intangible assets	17,129		2,982	14,147
Total capital assets, not being depreciated	**$35,952,470**	**$1,966,696**	**$989,061**	**$36,930,105**
Capital assets, being depreciated:				
Berths, dolphins, floats	$28,243,611			$28,243,611
Buildings and structures	36,542,505	$ 404,551		36,947,056
Other improvements	26,221,232	1,634,407		27,855,639
Machinery and equipment	26,480,253	297,174		26,777,427
Total capital assets being depreciated	**117,487,601**	**2,336,132**		**119,823,733**
Less accumulated depreciation	**53,816,324**	**2,795,088**		**56,611,412**
Total capital assets, being depreciated, net	**63,671,277**	**(458,956)**		**63,212,321**
Total capital assets	**$153,440,071**	**$4,302,828**	**$989,061**	**$156,753,838**

The Port restated the beginning balance of accumulated depreciation by $1,131,531 to adjust for the error in life assigned inappropriately to an asset. See the prior period adjustment note.

C. Construction Commitments

The Port has active construction projects as of December 31, 2013. Projects are being done by Port employees thus there are no commitments with contractors at year end.

Construction in process for the year ended December 31, 2013:

Project Description	Beg. Bal. 01/01/13	Expended in 2013	Transfer to Capital	End Bal. 12/31/2013
Facilities	$ 913,594	$ 497,025		$1,410,619
Roadways	505,886		$ 377,784	128,102
Tracks	1,192,414		1,105,108	87,306
Equipment		1,508,915		1,508,915
Total Construction in Process	$2,611,894	$2,005,940	$1,482,892	$3,134,942

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 6 - PENSION PLAN

Substantially all of the Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement 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 (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. 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 defined benefit plan 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 2012, 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 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 5 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 2 percent of the average final compensation (AFC) per year of service but the retirement benefit may not exceed 60 percent of AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.
A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.
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	**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 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 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 percent to 15 percent.

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

The methods used to determine PERS 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 7.5% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 9,955	$159,093	$20,625
2012	$ 6,252	$ 84,529	$12,942
2011	$ 6,379	$113,763	$14,178

NOTE 7 – POST EMPLOYMENT BENEFITS

The Port adopted provision of Government Accounting Standards Board No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" (GASB 45), in 2008. We have used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 61.22 was assumed for all active members. Termination and mortality rates were assumed to follow the PERS 2 termination and mortality rates used in the September 30, 2005, 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 2007. The results were based on group data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Key Results:

	2013	**2012**	**2011**
Actuarial Accrued Liability (AAL)	$791,011	$743,103	$911,296
Annual Required Contribution (ARC)	$139,492	$114,220	$113,602
Annual OPEB Cost	$134,720	$111,272	$113,602
Net OPEB Obligation (NOO)	$425,843	$291,123	$ 99,204

NOTE 8 - 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 Longview purchases property, liability and related insurance coverage annually through a commercial insurance broker(s) which provide coverage against most normal hazards. 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 Labor and Industries workers' compensation insurance program. However, management has elected to become self-insured through the Washington State Employment Security Department on a reimbursement basis. Unemployment claims are processed by the Washington State Employment Security Department. No reserve for self-insurance has been established as the potential liability is not considered to be material to the financial statements.

Additionally, the Port provides comprehensive medical, dental, vision, long-term disability (employees only) and life insurance coverage for all eligible employees and their dependents through standard plans offered by various commercial insurance brokers. The Port of Longview does not administer any of these plans. The Port does not provide any post retirement medical and dental insurance benefits, at its expense, for former employees.

NOTE 9- LONG TERM DEBT AND LEASES

The Port issues general obligation and/or revenue bonds to finance certain capital projects, acquisition of land, construction of facilities or purchase of capital assets. Bonded indebtedness has also been entered into in prior years to advance general obligation and revenue bonds. Bonds are displayed net of premium or discount on refunding. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of discounts. The Port also records depreciation expense to amortize the assets over the life of the assets.

The Paying Agent/Registrar for General Obligation and Revenue Bonded debt is:

Bank of New York
Fiscal Agencies - 7 East
101 Barclay Street
New York, New York 10286

A. General Obligation Debt

General obligation bonds are direct obligations and pledge the full faith and credit of the Port. The general obligation bonds debt and related interest are paid from ad valorem tax revenue. The Port may issue, without voter approval, general obligation bonds in amounts not to exceed 0.25 percent assessed value of the taxable property in the Port district. Total indebtedness is calculated net of general obligation bonds cash and investments and outstanding levies collectible. The Port is in compliance with this limitation.

Revised Code of Washington Chapter 53.36 provides that additional general obligation bond debt may be incurred upon approval by the voters of the Port district.

The general obligation bonds currently outstanding are as follows:

General Obligation Bonds				
Obligation	Orig. Issue	Interest Rate	Maturity Date	Balance 12/31/13
2008 Refunding Series A	$6,175,000	4.0%	12/01/2022	$5,905,000
2009 Series A	$2,435,000	1.0-5.00%	12/01/2019	$1,720,000
2009 Series B	$3,780,000	4.0-4.35%	12/01/2027	$3,780,000
2009 Series C.	$1,215,000	5.00%	12/01/2029	$1,215,000

Total GO Bonds before current portion			$12,620,000
Less current portion	590,000		12,030,000
Premium		113,753	
Total long-term GO Bonds			$12,143,753

Limitation of Indebtedness

Revised Code of Washington (RCW) 39.36 and 53.36 provide that non-voted general obligation debt cannot be incurred in excess of 0.25 percent assessed value of the taxable property in the port district. At December 31, 2013, the Port has a total taxable property value of $6,907,310,717 and non-voted general obligation borrowing capacity available of $11,796,775.

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

Year Ending December 31	Principal	Interest
2014	$ 590,000	$ 468,468
2015	780,000	446,393
2016	1,025,000	41,823
2017	1,070,000	343,848
2018	1,115,000	329,008
2019-2023	4,990,000	904,851
2024-2028	2,480,000	197,056
2029	570,000	0
Total	$12,620,000	$2,731,447

B. General Revenue Bonds

General revenue bonds are secured by a pledge of the Port's gross operating revenues and contain a coverage requirement related to maintaining adequate net revenues to support debt service. There are a number of limitations, restrictions, sinking fund and reserve requirements in the various bond indentures. At December 31, 2013 the Port had $2,516,472 in revenue bond reserves (included in restricted assets), and was in compliance with all significant bond indentures.

The revenue and revenue refunding bonds currently outstanding are as follows:

Revenue Bonds				
Obligation	Orig. Issue	Interest Rate	Maturity Date	Balance 12/31/13
1998 Series C	$ 2,420,000	4.30-5.00%	12/01/2018	$ --
1999 Series A	$15,260,000	4.30-6.25%	12/01/2018	$ 1,365,000
1999 Series B	$ 1,915,000	5.80%	12/01/2019	$ --
2011 Series A	$ 3,500,000	2.50-7.37%	12/01/2027	$ 3,125,000
2013 Series A, Refunding	$ 7,000,000	2.00-3.40%	12/01/2018	$ 6,585,000
2013 Series B, Refunding	$ 1,875,000	2.50%	12/01/2018	$ 1,875,000

Total Revenue Bonds before current portion	$12,950,000
Less current portion	1,925,000
Total long-term Revenue Bonds	$11,025,000

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

Year Ending December 31	Principal	Interest
2014	$1,925,000	$ 533,977
2015	1,845,000	449,189
2016	1,680,000	396,197
2017	1,730,000	344,477
2018	1,790,000	282,189
2019-2023	2,775,000	809,445
2024-2027	1,205,000	336,819
Total	$12,950,000	$3,152,293

On March 26, 2013, the Port issued $8.875 million in Revenue Refunding Bonds that were used to advance refund the 1998A and 1999B Revenue Bonds and defease a portion of the outstanding principal amount of the Port's 1998 Series C Revenue Bonds. The bonds bear interest rates from 2.0 to 5.0 percent and will be redeemed over the next seven years from the Port's operating revenues. The Port saved $975,957 on a net present value basis and $1,108,549 on a gross savings basis (not present valued).

C. Other Long-Term Obligations

Other long-term obligation debt for years 2014 through 2030, includes three loans with the State of Washington Community Economic Revitalization Board (CERB) for a portion of costs directly related to construction of a warehouse, improvements to rail lines in the East Park industrial property, Berth 9, a loan with Cowlitz County for the renovation of the White House and a loan with Washington Department of Transportation for rail improvements.

Other Long-Term Obligations				
Obligation	Orig. Issue	Interest Rate	Maturity Date	Balance 12/31/13
LID #016	$2,154,520	3.059%	10/25/2013	$ 0
RID #010	$ 850,400	3.059%	10/25/2013	$ 0
CERB Loan 006	$ 766,127	4.400%	01/01/2019	$ 406,923
CERB Loan 157	$1,000,000	1.000%	01/01/2024	$ 704,424
CERB Loan 208	$1,000,000	4.000%	01/31/2030	$1,000,000
County Loan	$ 262,500	3.000%	06/30/2024	$ 211,881
WSDOT Rail Loan	$ 465,605	--	07/01/2023	$ 465,605
Volvo Loader	$ 742,142	2.938%	03/20/2017	$ 502,467

Changes in Long-Term Liabilities

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

	Beg. Balance 01/01/2013	Additions Premiums	Reductions	Less Current Portion	Ending Balance 12/31/2013
G.O. Bonds	$13,314,980		$ 581,227	$ 590,000	$12,143,753
Revenue Bonds	$14,965,000	$8,875,000	$10,890,000	$1,925,000	$11,025,000
Capital Leases	$ 79,216		$ 79,216		$ 0
Other L/T Obligations	$ 4,247,530		$ 956,230	$ 234,063	$ 3,057,237
Other Post Emp Benefit	$ 291,123	$ 134,720			$ 425,843
Employee Leave Benefits	$ 551,014	$ 53,943			$ 604,957
Total L/T Liabilities	$33,448,863	$9,063,663	$12,506,673	$2,749,063	$27,256,790

NOTE 10 - CONTINGENCIES

Amounts received or receivable under federal grant programs are subject to audit and adjustment by the granting agency. Any disallowed claims, including amounts already received, may constitute a liability of the Port. The amount, if any, of expenditures which may be disallowed cannot be determined at this time although the Port expects such amounts, if any, to be immaterial.

NOTE 11 – POLLUTION REMEDIATION OBLIGATION

In November 2006, the Government Accounting Standards Board issued GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement addresses accounting and financial reporting standards for pollution and contamination remediation obligations. These obligations address current or potential future detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this statement are effective for fiscal periods beginning after December 15, 2007. However, due to pending litigation (see Note 12), Port counsel has advised management to delay implementation of GASB No. 49 at this time.

The Port has identified two sites that require characterization and remediation, the extent of contamination has not yet determined. Management is unable to publicly comment on this due to pending litigation.

NOTE 12 – LITIGATION

The Port is exposed to environmental liability at two sites that require characterization and remediation. The Port is not able to publicly comment on the potential cost to characterize and remediate the sites due to pending litigation to establish $200 million of insurance coverage. The Port has not done a full investigation identifying costs of the clean-up actions, however, a process will be commencing to assist the Port in doing so.

NOTE 13 - COLUMBIA RIVER CHANNEL IMPROVEMENT PROJECT

The Columbia River Channel Improvement Project is a bi-state project which is supported by port sponsors from the states of Oregon and Washington. Over the past decade, the Washington Ports of Kalama, Longview, and Vancouver, have cooperated with the U.S. Army Corps of Engineers and the Ports of Portland and St. Helens, regarding improvements to the Columbia River Federal Navigation Channel. This has included, among other activities a reconnaissance study, a feasibility study under the auspices of the Columbia River Improvement Project, The Dredged Material Management Plan and associated environmental impact statements for both the maintenance of the existing channel and the plans to increase the channel depth from 40 to 43 feet.

The Ports entered into the Washington Ports Agreement in 1999 for the purpose of participating as non-federal sponsors for the Channel Improvement Project. The Ports expanded the Agreement by amendments on October 17, 2001, on February 19, 2002, on March 15, 2002, and January 30, 2004.

The Washington and Oregon Ports entered into the "Intergovernmental Agreement Among Lower Columbia River Ports For Columbia River Channel Deepening and Maintenance" with the U.S. Army Corps of Engineers for the Channel Improvement Project on June 21, 2004. The Project Cooperation Agreement (PCA) identifies disposal, mitigation and restoration sites needed for the Channel Improvement Project.

The State of Washington appropriated $27.7 million for the Washington sponsor's share of project costs. The Oregon-Washington Ports Agreement allocates costs of the Channel Improvement Project. All costs incurred, with the exception for port-owned beneficial use sites, will be shared 50/50 between the states. The Washington Ports share of the costs is shared equally between the three Washington Ports. At the completion of the Columbia River Channel Improvement Project, a final accounting of the project will occur to ensure that the non-federal sponsors have equally contributed to the project, met their obligations to U.S. Army Corps of Engineers, and equalization will occur between the States of Washington and Oregon.

The deepening portion of the 103 mile navigation channel was completed in November 2010. There are three remaining disposal sites to be acquired. Disposal sites are reported as capital contributions for financial statement purposes and are carried at one-third of value by the Ports of Kalama, Longview and Vancouver.

NOTE 14- MAJOR CUSTOMERS

Operating revenues for the year ended December 31, 2013 included $26,498,983 from seven major customers. Receivables from those corporations totaled $3,365,686.

NOTE 15 – 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 required the recognition of outstanding bond issuance costs as an expense rather than recognizing over the life of the debt. As a result, the deferred bond issue costs were removed from the Statement of Net Position and $702,038 is presented as a change in accounting principle on the Statement Changes in Fund Net Position at December 31, 2013.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The Port presented a prior period adjustment in the net amount of $365,287 which represents a correction to accumulated depreciation and other assets. The Port had not included the asset's depreciation for 2 years and erroneously amortized it over ten years instead of fifty. The net adjustment of $161,712 restates the accumulated depreciation to bring the asset under the correct life. Additionally, the Port expensed $526,999 of preliminary costs accumulated in construction in progress which were not viable capital assets.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov