Washington State Auditor's Office

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Financial Statements Audit Report

Port of Everett

Snohomish County

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

Published May 26, 2015

Report No. 1014328

Washington State Auditor

May 26, 2015

Board of Commissioners
Port of Everett
Everett, Washington

Report on Financial Statements

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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Port of Everett
Snohomish County
January 1, 2014 through December 31, 2014

Board of Commissioners
Port of Everett
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated May 4, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

Jan M. Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 4, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Everett
Snohomish County
January 1, 2014 through December 31, 2014

Board of Commissioners
Port of Everett
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Everett, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 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 May 4, 2015 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 4, 2015

FINANCIAL SECTION

Port of Everett
Snohomish County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

The Port of Everett's (the Port) management discussion and analysis provides an overview of the Port's financial activities for the fiscal year ended December 31, 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements and notes to the financial statements, which immediately follow this discussion.

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

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

The Port operates in three primary business areas. The largest revenue division of the Port is the Marine Terminals division which in 2014 accounted for 65% of the Port's Operating Revenue. The Port owns four marine terminals which provide inter-modal cargo facilities for a number of steamship lines and shippers. Hewitt Terminal has two piers, a wharf, a 36,000 square foot chill warehouse and 21 acres of upland area. This terminal is dredged to minus 40 feet mean low low water (MLLW). The Port also operates the South Terminal wharf which features a 705-foot wharf, a 22,000 square foot warehouse with rail sidings, 13 acres of lighted upland acres, and is dredged to minus 40 feet MLLW. The South Terminal also has a dolphin berth, with a 900-foot usable length and dredged to minus 40 feet MLLW. The Pacific Terminal is operated by the Port as the Port's container and general cargo yard. The usable berth length is 640 feet and it is dredged to minus 40 feet MLLW. Two 40-ton container gantry cranes and two Gottwald mobile harbor cranes with lifting capacity in excess of 100 tons each, as well as a full array of cargo loading equipment, are available to service the Port's customers. The Mount Baker Terminal is a satellite terminal designed to transport oversized aerospace parts to Paine Field via rail. Initially, the aerospace parts arrive in the Port of Everett's shipping terminals on Port Gardner Bay. They are then barged to the Mount Baker Terminal where they are off-loaded by an electric rail-mounted gantry crane and transported by rail car to Paine Field Airport. The Port also manages extensive on-dock rail and warehouse facilities with direct connectivity to the mainline of the Burlington Northern Sante Fe railroad.

The Port provides the local boating community with modern small boat marina facilities. The Port's second division, the marina division accounted for 31% of the Port's total Operating Revenues in 2014. The Port marina facilities consist of two in-water marinas with over 2,300 wet moorage slips. The Port also provides upland storage for approximately 150 vessels. The Marina provides an array of marine services including operations of a fuel dock, wash down facility, vessel haul outs, boat yard facilities, restroom and shower complexes and parking facilities. The Port also partner's in the Port of Everett marine park boat launch with the City of Everett and Snohomish County. This facility is available for public use in launching trailerable boats into Puget Sound.

The Port's third Operating division is the Property division which serves as landlord and developer of Port owned commercial and industrial properties. The Port owns a total of about 3,000 acres of land including approximately 900 acres that have been or will be developed. Some of the sites may require cleanup of contaminated soils and often will require new or upgraded primary infrastructure. The Port is moving forward with a number of capital projects which will provide new or upgraded road and utility infrastructure to its land holdings. The improved industrial and commercial sites are either leased or sold to industrial, commercial or retail users who develop site specific facilities. The Port also constructs and owns buildings and leases those buildings to tenants. A wide array of businesses operate within the Port's real property holdings, ranging from light industrial to retail trade to restaurants and hospitality businesses. All of the Port's land holdings are adjacent to or near the waterfront surrounding the Port district. The Property division accounted for 4% of the Port's 2014 Operating Revenues.

Public ports, such as the Port of Everett, are municipal special purpose governments. Ports do their accounting and financial reporting for their activities very much like a business. They collect revenues from services performed for customers and pay for expenses related to those services. Port authorities in Washington State have also been given legislative authority to collect property tax revenues from property owners within the Port district. These tax revenues go to support the public amenities provided by the Port and to provide financing for capital investments made by the Port. Often, Ports will use tax revenues to pay for General Obligation debt incurred to construct facilities that are used to support Port functions. Property taxes collected are recorded as Non-Operating Revenues of the Port. Other Non-operating Revenue sources include Grant revenues (typically from State or Federal agencies) as well as Investment Income.

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

Financial Highlights

- In 2014, the Port's overall operating revenues increased to $31 million, growing by 4% over that recorded in 2013.
- The Port's overall operating costs also increased in 2014, going up $1.9 million, or 6%, over 2013 operating expense levels.
- The Port had an overall net operating loss of $1.2 million in 2014.
- The Port's net non-operating loss in 2014 of $113 thousand was significantly lower than the $1.8 million Non-Operating loss recorded in the prior year. The Non-Operating net loss included $4.8 million recorded for environmental remediation expense.
- The Port's capital contributions of $7.8 million, and a gain recognized on the sale of real property of $906 thousand during the year, contributed to an overall increase in Net Position of $5.9 million in 2014.
- The Port's assets and deferred outflows grew by $15.2 million to total $291.1 million at year end and exceeded its liabilities by $223.5 million (net position) as of December 31, 2014.

Using the Annual Report

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

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

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

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

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

Financial Analysis – Net Position

Net Position

	2014	2013
Current Assets (net of restricted assets)	35,142,348	33,796,605
Restricted Assets	3,412,728	436,416
Capital Assets	246,192,392	241,289,583
Other Noncurrent Assets	6,041,824	0
Total Assets	**290,789,292**	**275,522,604**
Total Deferred Outflows of Resources	**295,791**	**333,990**
Current Liabilities	17,167,448	9,979,935
Noncurrent Liabilities	50,404,046	48,601,101
Total Liabilities	**67,571,494**	**58,581,036**
Invested in Capital Assets, net of related debt	203,399,808	202,487,750
Restricted for Capital Projects	3,412,728	436,416
Unrestricted	16,701,053	14,351,392
Total Net Position	**223,513,589**	**217,275,558**

Assets

The Port maintained strong cash/investment reserves during 2014 with a total of $29.2 million in Cash and Investment. Of this total, $25.8 million was available and unrestricted.

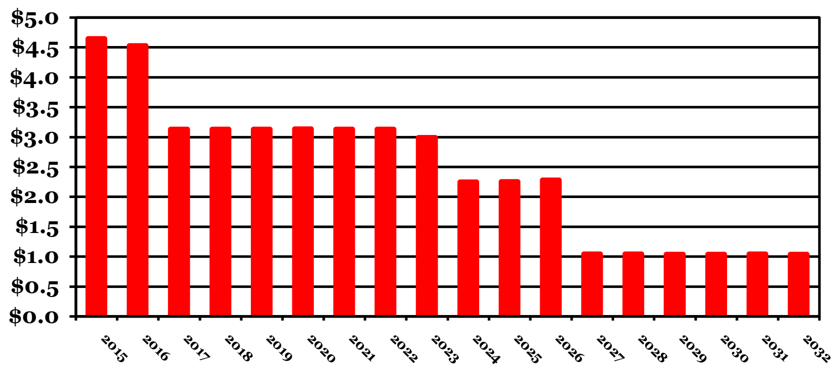
The Port also had Accounts Receivable of $5.9 million which was an increase of 36% from that recorded at 12/31/2013. Other current assets including taxes and interest receivable, amounts due from other governments, inventory and prepaid items totaled $3.5 million.

The Port's Total Net Position increased during 2014 to a total of $223.5 million at yearend. During the year, the Port decreased its total land holdings by $345 thousand, while it's net depreciable capital assets decreased by $2.7 million (see note 4). Construction in Progress at year end totaled $16.1 million.

Liabilities

Total Liabilities increased by $9 million from fiscal year 2013, with total liabilities at yearend of 67.6 million. During 2014, the Port entered into a Master Equipment Lease Purchase Agreement with Bank of America National Association in the amount of $11.8 million. At December 31, 2014 a total of $7.3 million had been drawn on this credit facility. Total Notes and Bond payables outstanding at yearend were $35.7 million which is $3.3 million less that that outstanding at 12/31/2013. Other long term liabilities at yearend include $17.3 million estimated for addressing legacy environmental costs at various port locations. See Note 9 for additional information.

Total future Annual Debt Service on outstanding Notes and Bonds Payable (in millions).



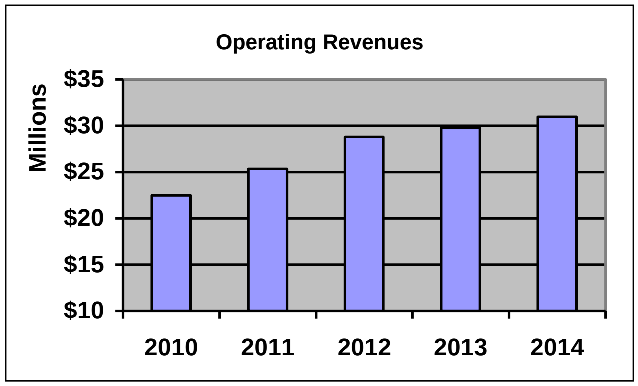
In 2014, the Port maintained a strong revenue bond Debt Service coverage ratio of 7.48 times debt service. Port bond contracts require the Port to maintain a minimum debt service coverage ratio of 1.35 times debt service. The Port Commission during 2014 voted to adopt a comprehensive set of Financial Guidelines which set guidance for staff in managing the Port's finances. The guidelines are available on the Port's website. The Financial Guidelines set a benchmark of maintaining cashflow sufficient to achieve a Revenue Bond Debt Service coverage ratio of at least a 2.0 times debt service

Financial Analysis - Revenues, Expenses and Changes in Net Position

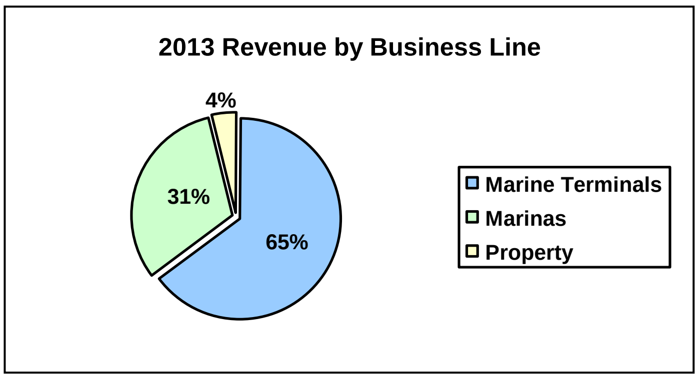
Summary of Revenues, Expenses and Change in Net Position

	2014	2013
Total Operating Revenues	$30,961,225	$29,757,454
Non-operating Revenues	6,540,695	5,651,589
Total Revenues	**37,501,920**	**35,409,043**
Operating Expenses	32,146,692	30,231,370
Non-operating Expenses	6,653,250	7,413,105
Total Expenses	**38,799,942**	**37,644,475**
Excess before Contributions and Adjustments	**(1,298,022)**	**(2,235,432)**
Capital Contributions	7,827,460	1,231,371
Gain on Sale	906,205	
Change in Accounting for Capital Projects	(1,525,460)	
Increase / (decrease) in Net Position	**$5,910,183**	**$(1,004,061)**
Adjustment for adoption of GASB #65		**(203,217)**
Prior Period Adjustment	**327,848**	
Change in Net Position	**$6,238,031**	**$(1,207,278)**

The *Statement of Revenues, Expenses and Changes in Net Position* provides insight as to the nature and source of the Port's Revenues and Expenses. Operating Revenues increased $1.2 million (4 %) over 2013. During the same period, general operations and maintenance expenses increased by $1.9 million (6%) from the previous year.



Marina operations revenues increased by $188 thousand (2%) from 2013. Expenses increased $162 thousand (2%) from 2013. Moorage occupancy increased slightly to just under 80% overall occupancy. We saw continued increases in travelift operations and upland boat storage.



Marine terminal operations revenues increased $933 thousand (5%) from the previous year. In 2014, the marine terminals had 185 Port calls, which were up from 175 port calls from 2013. Overall tonnage shipped through the terminals was up 25% to a total of 449 thousand short tons of cargo. The increase in cargo throughput activity resulted in marine terminals operating expenses increasing by $617 million (5%) over 2013.

Property management revenues increased by $82 thousand from the previous year a 7% increase from the previous year. This division had operating expenses of $1.6 million which was an increase of $541 thousand from that recorded in 2013.

Contacting the Port's Financial Management

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

PORT OF EVERETT

STATEMENT OF NET POSITION
December 31, 2014

ASSETS	
Current Assets	
Cash and cash equivalents (Note 1)	$3,307,228
Investments (Note 2)	22,443,949
Restricted assets (Note 1)	
Cash and cash equivalents (Note 1)	27,801
Investments (Note 2)	3,384,927
Taxes receivable (Note 3)	121,314
Accounts receivable (net of allowance for uncollectible)	5,925,779
Interest receivable	69,266
Due from other governments	2,543,566
Inventory	202,525
Prepaids	528,721
Total Current Assets	**38,555,076**
Noncurrent Assets	
Notes Receivable	6,041,824
Capital assets not being depreciated (Note 4)	
Land	52,627,241
Construction in Progress	16,115,393
Capital assets being depreciated (Note 4)	
Property, Plant and Equipment	
Buildings	190,489,971
Improvements other than building	55,982,705
Machinery and equipment	21,252,535
Intangible assets	7,462,397
Less: Accumulated Depreciation	(97,839,826)
Other noncurrent assets	101,976
Total Noncurrent Assets	**252,234,216**
Total Assets	**$290,789,292**
DEFERRED OUTFLOWS OF RESOURCES	
Advance refunding deferred outflow (Note 1)	295,791
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$295,791**

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

PORT OF EVERETT

STATEMENT OF NET POSITION
December 31, 2014

LIABILITIES	
Current Liabilities:	
Warrants payable	$767,509
Accounts payable	5,323,327
Accrued taxes payable	37,522
Accrued interest payable	129,111
Current portion of notes payable and capital leases (Note 9)	1,115,881
Current portion of long-term obligations (Note 9)	2,845,000
Current portion of Environmental Remediation Liabilities (Note 14)	6,814,990
Other current liabilities	134,108
Total Current Liabilities	**17,167,448**
Noncurrent Liabilities:	
General obligation bonds, net (Note 9)	20,306,537
Revenue bonds, net (Note 9)	10,879,062
Notes payable and Capital Leases (Note 9)	7,839,919
Employee leave benefits	940,692
Environmental Remediation Liability (Note 14)	10,437,836
Total Noncurrent Liabilities	**50,404,046**
Total Liabilities	**$67,571,494**
NET POSITION:	
Net investment in capital assets	203,399,808
Restricted for capital projects	3,412,728
Unrestricted	16,701,053
TOTAL NET POSITION	**$223,513,589**

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

PORT OF EVERETT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2014

OPERATING REVENUES:	
Marina operations	$9,703,486
Marine terminal operations	19,997,679
Property lease/rental operations	1,260,060
Total Operating Revenues	**30,961,225**
OPERATING EXPENSES:	
General operations	17,797,697
Maintenance	3,837,420
General and administrative	3,343,016
Depreciation (Note 4)	7,168,559
Total Operating Expenses	**32,146,692**
Operating Income (Loss)	**(1,185,467)**
NONOPERATING REVENUES (EXPENSES):	
Environmental grant revenues	1,614,835
Investment income	483,463
Net increase/decrease in fair value of investments	(8,745)
Taxes levied	4,442,397
Public access	(219,377)
Public access depreciation (Note 4)	(226,457)
Interest expense	(1,360,784)
Election Expense	1,203
Environmental remediation expense	(4,821,652)
Other nonoperating expenses, net	(17,438)
Total Nonoperating Revenues (Expenses)	**(112,555)**
Income (loss) before other revenues, expenses, gains, losses and transfers	**(1,298,022)**
Capital contributions	7,827,460
Gain on sale of real property	906,205
Change in accounting for cancelled capital projects	(1,525,460)
Increase (decrease) in net position	**5,910,183**
Net position - January 1, as previously stated	**217,275,558**
Prior Period Adjustment (Note 15)	327,848
Net position - January 1, as restated	**217,603,406**
Net Position - end of period	**$223,513,589**

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

PORT OF EVERETT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	
Marina	$9,371,626
Marine Terminals	20,268,160
Property Lease / Rental	1,282,810
Payments to suppliers	(9,848,615)
Payments to employees	(13,025,049)
Net cash provided by operating activities	**8,048,932**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	4,356,788
Miscellaneous taxes received	69,193
Non-operating receipts	(1,253,387)
Non-operating expenses	(4,677,719)
Net cash provided by noncapital financing activities	**(1,505,125)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases or construction of capital assets	(15,665,422)
Proceeds from bonds	(19,540,000)
Principal paid on notes	6,881,892
Principal paid on capital debt	16,800,000
Interest paid on capital debt	(1,548,598)
Bond issue expense	(6,705)
Contributed capital	7,827,460
Sale of capital asset	1,251,482
Other receipts (payments)	(1,674,663)
Net cash used by capital and related financing activities	**(5,674,554)**
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	100,762
Interest and dividends	414,345
Net cash used by Investing Activities	**515,107**
Net increase in cash and cash equivalents	**1,384,360**
Balances - beginning of the year	**1,950,669**
Balances - end of the year	**$3,335,029**
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	($1,185,467)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation	7,168,559
Change in assets and liabilities	
Decrease in accounts receivable	289,581
Decrease in inventory	30,308
Decrease in prepayments	(111,351)
Decrease in customer deposits	(328,210)
Increase in accounts payable	1,943,938
Increase in warrants payable	133,583
Increase in taxes accrued	16,612
Increase in employee benefits payable	91,379
Net cash provided by operating activities	**$8,048,932**

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

Port *of* Everett

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The Port of Everett (the Port) was incorporated in 1918 and operates under the laws of the state of Washington applicable to a public port district, as a municipal corporation under the provisions of Chapter 53 RCW. The Port is centrally located on Puget Sound at Port Gardner Bay about 125 miles inland from the Pacific Ocean. The Port district boundaries have been set by voter approval with the port district boundaries encompassing most of Everett, WA, a portion of Mukilteo, WA and a portion of unincorporated Snohomish County. Property owned within the district boundaries is subject to a property tax levy which is imposed by the governing board of the Port.

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

A. Reporting Entity

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

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

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

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

B. Basis of Accounting and Presentation

The accounting records of the Port of Everett are maintained in accordance with methods prescribed by the State Auditor 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.

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

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

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the district are charges to customers for marine terminals, marina, and property/industrial 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 non-operating revenues and expenses. Included in the non-operating expenses are expenses related to providing the general public access to Port property. This access includes maintaining public access and open spaces and paying the Port's obligations for navigation dredging, as well as other expenses related to open space and public access.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

   It is the Port's policy to invest all temporary cash surpluses. At December 31, 2014, Short-term residual investments of surplus cash were $3,335,029. This amount is classified on the statement of net position as cash and cash equivalents. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average month end balances maintained during 2014 were $2,269,526.

2. Investments

The Port Commission has adopted an Investment Policy which provides guidance and policy direction for all investments of Port funds. This document combined with state statutes which dictate authorized investments serves as the template for the investment of all Port funds. All investments of the Port's funds are obligations of the US government, agencies of the US government, general obligations of state and municipal governments, deposits in the Washington State Treasurer's local government investment pool or are collateralized deposits with Washington state banks and savings and loan institutions. As of December 31, 2014 investments totaled $25,828,876 of which $3,384,927 was restricted for specific uses.

The Washington State Local Government Investment Pool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The fair value of the portfolio is calculated by the master custodian or by an independent pricing service under contract with the State Treasurer's Office. The fair value of the Port's position in the Washington State Local Government Investment Pool is the same as the value of the pool shares.

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

The Port also has purchased investments in various government backed bonds. These investments are held in a safe keeping arrangement with the Bank of New York Mellon. The portfolio of bond investments is recorded at the Fair Market Value as determined by independent market pricing as of 12/31/2014. Investments are classified as current assets on the accompanying financial statements. They are available for use in operations if needed and are not committed to be held to maturity. Changes in fair value of investments are recognized on the Statement of revenues, expenses and changes in fund net position.

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consists of amounts due from individuals or organizations for services provided. Receivables have been recorded net of estimated uncollectible amounts. Because property taxes are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for other receivables are $25,504.

4. Amounts Due To and From Other Governments

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

5. Restricted Assets

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

	12/31/2014
Cash and Investments - Port of Everett Industrial Development Corp.	$27,801
Investments – North Marina Redevelopment Interpretive Program	257,393
Investments - City of Everett Riverside Industrial Park Construction Permit	125,000
Investments – Fisherman's Tribute Statue	6,845
Investments- Proceeds from 2013 LTGO Bond issuance	5,462
Investments-Escrow Account for Lease Financed Assets	2,990,227
Total as of December 31, 2014	**$3,412,728**

6. Capital Assets and Depreciation

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

7. Intangible Assets

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

8. Employee Leave Benefits

   Employee leave benefits are accrued leave payable to employees of the Port. Vacation pay, which may be accumulated up to 48 days, is payable upon resignation, retirement or death. Sick leave may accumulate up to 180 days. Upon separation without cause, employees are paid for accumulated sick leave at 50% of their final balance but not more than 90 days (50% of 180 days). The Port accrues vacation and sick leave benefits as earned. At December 31, 2014 the recorded liability for unpaid vacation and sick leave was $940,692.

9. Deferred Outflows/Inflows of Resources

   In 2013, the Port recognized a deferred outflow of resources related to an advance refunding of the Ports 2004 series limited tax obligation bonds. The deferred outflow of resources account on December 31, 2014 totals $295,791and will be recognized as a component of interest over the remaining life of the refunded debts.

10. Net Position

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

D. Recent Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board issued GASB No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. 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 creating additional transparency. This Statement replaces the requirements of Statements No. 25. The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013. The Port is currently evaluating the effect of this standard on its financial statements and related disclosures.

In June 2012, the Governmental Accounting Standards Board issued GASB No. 68, *Accounting and Financial Reporting for Pensions Plans - an amendment of GASB Statement No. 27*, The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. 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 creating additional transparency. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In November 2013, the Governmental Accounting Standards Board issued GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In February 2015, the Governmental Accounting Standards Board issued GASB No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

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

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

Investments

As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of state and local government, or certificates of deposit with PDPC qualified banks and savings and loan institutions.

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

The Port invests its surplus cash according to an Investment Policy formally adopted by the Commission.. The Port’s policy is that investment principal be at minimal risk, while seeking a return on investment and following a schedule of maturities that meets cash demands. All investments are valued at fair value of December 31, 2014.

Fair value of deposits and investments at December 31, 2014

Cash and Cash Equivalents	
Petty Cash and Cash in bank	$3,335,029
Investments	
Money Market funds	$2,000,174
Local Government Investment Pool	208,692
Certificates of Depost	4,250,000
US Agency Bonds	7,475,376
US Treasury Bonds	4,012,188
Municipal Bonds	4,892,219
Escrow funds held by Bank of America	2,990,227
Total Investments	$25,828,876

Interest rate risk

To minimize risk of loss arising from interest rate fluctuations, and to provide for liquidity, the Port purchases investment with a laddered approach to maturities. The Port targets a weighted average maturity (modified duration) not to exceed 3 years. At yearend the portfolio had a duration of 2.13 years.

Credit risk

The Port’s investment policy states that safety of principal is the foremost objective. To obtain this objective the Port employs a diversification approach to management of the investment portfolio. Furthermore the Port restricts its investments to securities that are rated AA or higher as rated by recognized rating agencies. At yearend the portfolio held the following categories of issuers:

Federal National Mortgage Association	8.7%
Federal Home Loan Banks	6.5%
Federal Farm Credit Banks	4.4%
Federal Home Loan Mortgage Corporation	13.1%
Unitied States Treasury Notes	17.6%
Municipal Bonds	21.4%
Collaterialized Certificates of Deposit	18.6%
Collaterialized Money Market accounts	8.8%
Washington Local Government Investment Pool	0.9%

Custodial Risk

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

NOTE 3 - PROPERTY TAXES

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

Property Tax Calendar

January 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.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied. During the year, property tax revenues are recognized in the month when the County Treasurer collects cash. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The Port may levy up to $.45 per $1,000 of assessed valuation for general government services. The rate is limited by the Washington State Constitution and Washington State law, RCW 84.55.010. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2014 was $.35 per $1,000 on an assessed valuation of $12.5 billion for a total regular levy of $4,405,948. In 2013 the regular tax levy was $3,338,055.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

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

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

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

B. Capital asset activity for the year ended December 31, 2014 was as follows:

	Balance 12/31/2013	Increases	Decreases	Balance 12/31/2014
Capital Assets, not being depreciated				
Land	$52,972,518		$345,277	$52,627,241
Construction in Progress	8,171,782	15,172,198	7,228,587	16,115,393
Total Capital Assets, not being depreciated	61,144,300	15,172,198	7,573,864	68,742,634
Capital Assets, being depreciated				
Buildings	190,309,077	3,005,307	2,824,413	190,489,971
Improvements other than buildings	55,917,956	560,954	496,205	55,982,705
Machinery and equipment	19,257,957	2,238,280	243,702	21,252,535
Intangible Assets	7,462,397	0	0	7,462,397
Total Capital Assets, being depreciated	272,947,387	5,804,541	3,564,320	275,187,608
Less accumulated depreciation for:				
Buildings	67,762,628	4,433,833	1,796,325	70,400,136
Improvements other than buildings	16,346,021	1,829,394	455,039	17,720,376
Machinery and equipment	6,488,815	964,137	217,968	7,234,984
Intangible Assets	2,316,678	167,652	0	2,484,330
Total accumulated depreciation	92,914,142	7,395,016	2,469,332	97,839,826
Total capital assets, being depreciated, net	$180,033,245	-$1,590,475	$1,094,988	$177,347,782

NOTE 5 - CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2014. At year-end the Port's commitments with contractors are as follows:

Project Name	Spent To-Date	Commitment
Blue Heron Room Acoustic Upgrades	$ 67,318.41	$ 3,230.25
Central Boat Storage Yard Power Upgrades	$ 144,171.12	$ 6,918.00
South Terminal Gate Replacement	$ 40,745.31	$ 1,955.15
Everett Shipyard Site Sediment Cleanup & Central Marina Improvements Phase 1	$ 3,185,976.40	$ 2,957,196.01
Marina Pavement Upgrades 2014	$ 49,549.97	$ 2,377.64
Marine Fender Pile Replacement 2014/2015	$ -	$ 191,373.00
Marine Terminal Maintenance Building Re-Roof	$ 286,203.39	$ 13,733.37
Marine Terminal Pavement Upgrades 2014	$ 312,372.88	$ 14,989.11
Mount Baker Terminal Access Roadway & Utility Improvements	$ 59,375.00	$ 1,816,418.92
On-Call Civil Construction Services	$ 65,174.39	$ 234,825.61
Pier 1 Oil/Water Separator Vault Upgrades	$ 427,778.88	$ 22,514.68
Pier 3 Pile Repairs - 2014	$ 374,671.81	$ 17,978.50
South Terminal Emergency Bulkhead Repair	$ 65,271.59	$ 3,132.03
South Terminal Wharf Upgrades	$ 321,539.40	$ 2,229,530.94
Truck Scale Improvements	$ 60,045.25	$ 164,852.20
Weyerhaeuser Building Exterior Paint	$ 243,732.80	$ 11,695.00
Waterfront Center Utility Services	$ -	$ 49,175.17

NOTE 6 – PENSION PLANS

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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of 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 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 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 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 benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

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

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

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

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

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on 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 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The 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 percent to 15 percent.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	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%..*

**** Plan 3 defined benefit portion only..*

****** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.*

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$16,006	$926,919	$108,720
2013	$15,336	$778,236	$91,947
2012	$13,813	$649,209	$85,629

NOTE 7 - CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities, including an estimate for situations, which are not yet resolved, but where, based on available information, management believes it is probable that the Port will have to make payment. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

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

NOTE 8 –LEASES

A. Operating Leases

The Port leases equipment under various operating leases. Total cost for such leases was $59,979 for the year ended December 31, 2014. The future minimum lease payments for noncancelable operating leases are as follows:

Year ending December 31	Amount	
2015	$	51,514
2016		51,514
2017		40,321
2018		39,233
2019		26,156
Total	$	208,738

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

Year ending December 31	Amount
2015	$1,294,029
2016	1,222,057
2017	915,639
2018	841,336
2019	614,579
2020-2024	2,369,517
2025-2029	1,254,881
2030-2034	880,888
2035-2039	684,760
2040-2044	684,760
2045-2049	299,305
2050-2054	270,000
2054-2056	108,000
Total	$11,439,751

B. Capital Leases

During 2014, The Port executed a Master Lease Agreement with Bank of America National Association for the lease purchase of equipment in an amount not to exceed $11,800,000. This lease agreement is subordinate to other Port debt and payment is secured by the operating revenues of the Port. As of December 31, 2014, initial approved credit is in the amount of $9,000,000 and the Port has drawn $7,293,549 of this capacity (of which all remains outstanding). These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the inception date. No depreciation has yet been recognized.

The assets acquired through capital leases are as follows:

Boat Transporter	$365,984
Gottwald Mobile Harbor Crane	5,029,778
Hyster Pneumatic Tire Reach Stacker	1,782,780
Hyster Forklift	115,007
Less Accumulated Depreciation	-
Total	$7,293,549

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2014 were as follows:

Year ending December 31,	Business-type Activities
2015	$836,395
2016	836,395
2017	836,395
2018	836,395
2019	836,395
2020-2024	4,013,351
Total Minimum Lease Payments	$8,195,326
Less: Interest	901,777
Present Value of Min. Lease Payments	$7,293,549

NOTE 9 – LONG-TERM DEBT

A. Long-Term Debt

The Port issues general obligation and revenue bonds to finance acquisition, purchase or construction of various projects. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. The Port is also liable for notes that were entered into to remove a land encumbrance, for the construction of a rail spur, and for installation of a natural gas district regulator.

The general obligation bonds outstanding at 12/31/2014 are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	2014 Principal Payment	Balance Outstanding at 12/31/2014
2006 Series A & B – Providing funds to finance capital improvements to facilities of the Port and refund certain outstanding limited tax general obligation bonds of the Port.	2016	4%-7%	$8,080,000	$1,020,000	$2,190,000
2013 Limited Tax General Obligation Bonds- Refunding of outstanding debt.	2032	2%-5%	$19,540,000	$1,010,000	$18,125,000

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

Year Ending December 31	Principal	Interest
2015	2,095,000	851,100
2016	2,185,000	766,950
2017	1,090,000	656,400
2018	1,135,000	612,800
2019	1,170,000	574,875
2020-2024	5,800,000	2,229,375
2025-2029	4,005,000	1,196,263
2029-2032	2,835,000	288,000
Total	$20,315,000	$7,175,763

The revenue bonds outstanding at 12/31/2014 are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	2014 Principal Payment	Balance Outstanding at 12/31/2014
2007 Series - Various capital improvements to port facilities	2026	4.0% to 5.5%	$16,225,000	$710,000	$11,565,000

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

Year Ending December 31	Principal	Interest
2015	750,000	498,500
2016	790,000	457,250
2017	830,000	413,800
2018	865,000	378,525
2019	900,000	343,925
2020-2024	5,090,000	1,136,406
2025-2026	2,340,000	147,050
Total	$11,565,000	$3,375,456

Unamortized debt issue costs for insurance are recorded as deferred inflow and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

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

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

At December 31, 2014, the Port district's assessed value and limitation of unvoted General Obligation debt are as follows:

Total assessed value	13,600,845,900
.25% limitation of indebtedness	34,002,115
Unvoted GO Bonds issued and outstanding	$20,315,000
Unvoted GO Bond margin	13,687,115

Revenue Debt Service Coverage

Year	Operating Revenues	Operating Expenses (1)	Nonoperating Income (2)	Available for Debt Service	Revenue Debt Service	Debt Service Coverage (3)
2010	22,472,752	17,458,213	2,590,481	7,605,020	1,663,005	4.57
2011	25,345,293	19,358,420	2,144,226	8,131,099	1,767,581	4.60
2012	28,798,396	21,265,975	2,650,836	10,183,256	1,870,049	5.45
2013	29,757,454	23,250,502	3,181,778	9,688,730	1,813,299	5.34
2014	30,961,225	24,978,133	3,352,783	9,335,875	1,247,550	7.48

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

B. Changes in Long-Term Liabilities

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

	Beginning Balance 12/31/2013	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Bonds payable:					
G. O. Bonds	$ 22,345,000		$ 2,030,000	$ 20,315,000	$ 2,095,000
Revenue Bonds	12,275,000		710,000	11,565,000	750,000
Premiums – Revenue Bonds	69,400		5,338	64,062	
Premiums – G.O. Bonds	2,260,543		174,006	2,086,537	
Discounts	(67)		(67)	-	
Total Bonds Payable	36,949,876	-	2,919,277	34,030,599	2,845,000
Notes Payable	2,073,909		411,658	1,662,251	443,501
Capital Leases	-	7,293,549		7,293,549	672,380
Compensated Absences	849,314	1,783,119	1,691,741	940,692	
Accrued Environmental Expenses	14,083,808	4,821,652	1,652,634	17,252,826	6,814,990
Total Long-Term Liabilities	$ 53,956,907	$ 13,898,320	$ 6,675,310	$ 61,179,917	$ 10,775,871

NOTE 10 - RISK MANAGEMENT

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

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

Commercial property replacement cost coverage with a total insured value of $278.4 million with a deductible of $25,000 is in effect. In addition, the Port maintains standard business automobile, construction, and boiler and machinery coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

NOTE 11 – MATERIAL CUSTOMERS

Operating receipts from a local aerospace company represent 41.4% of the operating receipts for 2014. The total billings for this customer in 2014 equaled $12,820,123 and of this amount $1,575,644 remains outstanding as of December 31, 2014.

NOTE 12 – BUSINESS LINE INFORMATION

The Port operates shipping marine terminals, a marina, and leases industrial property, which are primarily financed by user charges. Current Assets, Deferred Outflows of Resources, Liabilities, Net Position, and Cash Flow are accounted for on a Port-wide basis and are not identifiable to a particular business line. Information on operating results from each business line for the year ended December 31, 2014 is presented below.

	Marine Terminals	Marina	Property Leases	Total
Operating Revenue	$19,997,679	$9,703,486	$1,260,060	$30,961,225
Operating Expense	13,225,500	6,742,516	1,606,062	21,574,078
Depreciation Expense	3,332,548	2,848,346	805,496	6,986,390
Income From Operations	$3,439,631	$112,624	($1,151,498)	2,400,757
Administrative Expense				3,586,224
Net Operating Income				($1,185,467)

NOTE 13 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS

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

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

The Port's estimate of its pollution remediation obligations is analyzed by independent environmental consultants annually (using the expected cash flow technique) and has been estimated at $30,458,000 on December 31, 2014. In some cases, the Port has successfully recovered Port-incurred investigation and cleanup costs from other responsible parties. The Port will continue to seek appropriate recoveries in the future. As of December 31, 2014, unrealized recoveries were estimated at $13,205,174. The Port liability will change over time due to changes in cost estimates, changes in technology, and changes in governing laws and regulations. In 2014, the Port recognized an increase in the accrued liability in the amount of $4,821,652. During the fiscal year 2014, the Port has recorded recoveries in the amount of $2,480,970, and expended $4,133,604 in cleanup activities.

In 2014 the Port recognized grant revenues in support of its cleanup program from the Department of Ecology Model Toxics Control Act (MTCA) in the amount of $1,614,835.

The East Waterway is a listed site on the Washington State Department of Ecology's Hazardous Sites List. The Site was listed by Ecology for sediment contamination caused by historical industrial activities in the area. In April, 2013, The Port was named a Potentially Liable Party (PLP) under the Model Toxics Control Act for the East Waterway based on the Port's historical ownership and operations in the East Waterway. Although Ecology has indicated that, after naming PLPs, the agency will likely require the PLPs to enter into an MTCA order for a remedial investigation & feasibility study of the sediment contamination in the East Waterway, it is uncertain at this time what the Port's remediation obligations may be.

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

NOTE 15 – PRIOR PERIOD ADJUSTMENT

During the year ending December 31, 2014, a material error in the amount of $327,848 was found in the recognition of marina revenue. The error was made in fiscal year 2010 and resulted in the 2010 operating revenue and the net position ending balance being understated by that amount. This error has been corrected in the 2014 accounting year and the impact has been shown as an adjustment to beginning net position on the statement of revenues, expenses and changes in fund net position.

ABOUT THE STATE AUDITOR'S OFFICE

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