Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Port of Port Angeles

Clallam County

For the period January 1, 2013 through December 31, 2014

Published September 28, 2015

Report No. 1015193

Washington State Auditor's Office

September 28, 2015

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

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

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

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

Sincerely,

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Port of Port Angeles
Clallam County
January 1, 2014 through December 31, 2014

The results of our audit of the Port of Port Angeles are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control Over Major Programs:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Port did not qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

Port of Port Angeles
Clallam County
January 1, 2014 through December 31, 2014

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the Port of Port Angeles. The State Auditor's Office has reviewed the status as presented by the Port.

Audit Period: 1/1/13-12/31/13	**Report Ref. No.:** 1012615	**Finding Ref. No.:** 2013-001	**CFDA Number(s):** 20.106
Federal Program Name and Granting Agency: Airport Improvement Program – Federal Aviation Administration		**Pass-Through Agency Name:** Washington State Department of Transportation	
Finding Caption: The Port does not have adequate controls to ensure compliance with federal suspension and debarment requirements for personal service contracts.			
Background: The Port was unaware of the suspension and debarment requirements for personal and professional service contracts, and did not have controls in place to ensure compliance with these requirements. The Port paid an engineering firm $411,959 for consulting services and did not verify whether the firm was suspended or debarred.			
Status of Corrective Action: (check one) ■ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid			
Corrective Action Taken: *Personal service contracts on Federal Grants are reviewed by the Director of Engineering in the same manner as professional service contracts. This began immediately after the finding.* *The Port inserted a clause into its template personal service contract where the vendor states* they are *not suspended or debarred. This was completed by October1, 2014.* *The airport manager attended federal grant training in 2014. The Accounting Manager and Finance Manager attended federal grant training in March 2015.*			

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

Port of Port Angeles
Clallam County
January 1, 2013 through December 31, 2014

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Port Angeles, Clallam County, Washington, as of and for the years ended December 31, 2014 and 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 22, 2015. 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*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 22, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Port of Port Angeles
Clallam County
January 1, 2014 through December 31, 2014

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Port Angeles, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The Port's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 22, 2015

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

Port of Port Angeles
Clallam County
January 1, 2013 through December 31, 2014

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

REPORT ON COMPLIANCE FOR PASSENGER FACILITY CHARGES

We have audited the compliance of the Port of Port Angeles, Clallam County, Washington, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2014 and 2013.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Compliance

In our opinion, the Port of Port Angeles complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2014 and 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 22, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Port Angeles
Clallam County
January 1, 2013 through December 31, 2014

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Port Angeles, Clallam County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Port Angeles, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 20 through 27 and information on postemployment benefits other than pensions on page 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Passenger Facility Charges is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. These schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 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

September 22, 2015

FINANCIAL SECTION

Port of Port Angeles
Clallam County
January 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014 and 2013
Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013
Statement of Cash Flows – 2014 and 2013
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Other Postemployment Benefits – Schedule of Funding Progress – 2014 and 2013

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Schedule of Passenger Facility Charges and Notes – 2014 and 2013
Schedule of Expenditures of Federal Awards – 2014
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INTRODUCTION

The Port is a special-purpose municipality providing marina, airport and marine terminal services, as well as industrial property leases, and fosters economic activity within the district. The Port of Port Angeles was approved by Clallam County voters in 1922 and established in 1923. The Port is independent from other local or state governments and operates within the Clallam County district boundaries. It is administered by a three-member Board of Commissioners. In 2014 the public voted to change the term of office for new elected Commissioners to a four-year term instead of a six-year term. The Commission delegates authority to an Executive Director and administrative staff who conduct the operations of the Port. The Port is supported primarily through operating revenues (user charges, marine terminal tariffs, rental rates, and fees). Property taxes are only used for capital improvements.

This section contains the Port of Port Angeles' Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar year ended December 31, 2014, and December 31, 2013. It provides an introduction to the Port's 2014 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements. Additionally, other factors not shown on the financial reports should be evaluated to assess the Port's true financial condition, such as changes in the Port's tax base and the condition of the Port's asset base.

Overview of the Financial Statements

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

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

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

- Statement of Net Position reflects the Port's financial position at year-end. It presents information on all of the Port's assets, deferred outflows, liabilities and deferred inflows, with the difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows reported as Net Position. The value of Net Position represents a specific point in time. Over time, increases or decreases in Net Position may serve as an indicator of whether the financial position of the Port is improving or deteriorating.

- Statement of Revenues, Expenses, and Changes in Net Position reflects changes in the Port's financial position (Net Position) during the current year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows. This statement presents changes in Net Position from income or loss from operations as well as non-operating revenues and expenses, capital contributions and extraordinary items.

- Statement of Cash Flows reflects the net increases or decreases in cash from the following activities: Operating Activities, which includes a reconciliation of cash flows from operating activities to net income (loss) from operations; Noncapital Financing Activities; Capital and Related Financing Activities; Investing Activities.

FINANCIAL HIGHLIGHTS

Year Ended December 31, 2014

- Change in Net Position: The ending net position (assets that exceed liabilities) was $60 million, which was an increase of $2.1 million. This is the result of $0.36 million from operations and $1.75 million from non-operations (taxes, operating grants and capital contributions). Operating revenues increased overall by $1.41 million or 16%, primarily due to a strong log export market which provides revenues for Marine Terminals and Log Handling. Marina revenues have been experiencing a slow decline in occupancy, which is reflective of both regional and national trends. In 2014 revenues and expenses for rental properties which were within the airport layout plan were moved to the Airport, which resulted in a shift of approximately $1 million in revenues from Property Rentals to Airports. Operating expenses increased overall by $1.44 million, slightly more than operating revenues, and included $0.3 million expense for airport project planning. In non-operating revenues, there was $0.9 million in grants for airport improvements from FAA (Federal Aviation Administration) and a $0.4 million increase in the fair value of investments (primarily related to two investments that have maturities in December of 2025 and 2030; longer term investments are more sensitive to changes in interest rates). The Port's policy is to hold investments until maturity so it would be unlikely the unrealized gain would be realized.
- Assets: Total assets of the Port were $72 million, which was an increase of $2.1 million. Net capital assets (land, buildings, improvements and equipment net of accumulated depreciation) comprised $48 million or 67% of total assets. A significant portion of the Port's assets were substantially comprised of cash and investments, for a sum of $21.9 million of which $0.3 million was restricted (custodial account, debt service and customer deposits/prepaids), while the rest was available to be used for any purpose. Cash and investments increased by $2.9 million or 15%.
- Liabilities: The Port's total liabilities did not significantly change. The activity was comprised of a decrease of $0.7 million in outstanding debt on capital assets and an increase of $0.9 million related to pollution remediation projects. (Per accounting rules, expenses for pollution remediation projects are required to be accrued when reasonably estimable; however, grant revenue related to one of the projects, cannot be recorded until the expense is incurred.) There was also a slight increase in other post-employment benefits and employee leave benefits.

Year Ended December 31, 2013

- Changes in Net Position: The ending net position (assets that exceed liabilities) was $58 million, which was an increase of $3 million, primarily due to $2.3 million in grants and almost $1 million in operations. The grants included $1 million for airport capital improvements funded by Federal Aviation Administration, and $1.1 million for a pollution remediation operating grant funded by the Washington State Department of Ecology. The increase in net position related to operations was due to Marine Terminal and Property Rental operations. Partially offsetting the increases from grants and operations was a decrease of $0.5 million in fair value of investments; 72% of this decrease was due to two investments that have maturities in December of 2025 and 2030. These longer term investments are more sensitive to changes in interest rates. The Port's policy is to hold investments until maturity so it is unlikely that the unrealized loss would be realized.
- Assets: Total assets of the Port were $70 million. Net capital assets (land, buildings, improvements and equipment net of accumulated depreciation) comprised $48 million or 68% of total Port assets. The remaining portion of the Port's assets were substantially comprised of cash and investments for a sum of $19 million of which only $0.9 million was restricted (custodial account, debt service and customer deposits/prepaids), while the rest was available to be used for any purpose. Cash and investments increased by $0.7 million or 3.7%.
- Liabilities: The Port's total liabilities (current and noncurrent portion of debt, pollution remediation, employee leave benefits, other post-employment benefits) decreased $1.6 million of which $0.7

was a result of debt payments related to capital assets and $0.7 million was related to pollution remediation projects. The decreases were offset by increases in other post-employment benefits and employee leave benefits.

Condensed Comparative Financial Data

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

STATEMENT OF NET POSITION	2014	2013	2012	Increase (Decrease) 2014-2013	Increase (Decrease) 2013-2012
Current Assets	$ 13,036,719	$ 11,767,764	$ 13,794,467	$ 1,268,955	$ (2,026,703)
Noncurrent Assets	59,335,355	58,527,546	55,062,772	807,808	3,464,774
Total Assets	**72,372,074**	**70,295,310**	**68,857,239**	**2,076,763**	**1,438,071**
Deferred Outflows of Resources	**0**	**0**	**0**	**0**	**0**
Current Liabilities	2,555,857	2,207,422	3,341,534	348,435	(1,134,112)
Noncurrent Liabilities	9,758,513	10,139,348	10,588,664	(380,835)	(449,316)
Total Liabilities	**12,314,370**	**12,346,770**	**13,930,198**	**(32,400)**	**(1,583,428)**
Deferred Inflows of Resources	**0**	**0**	**0**	**0**	**0**
Net Investment in Capital Assets	39,872,679	38,746,799	38,312,739	1,125,880	434,060
Restricted for Environmental	13,767	158,378	-	(144,611)	158,378
Unrestricted Net Position	20,171,258	19,043,364	16,614,301	1,127,894	2,429,063
Total Net Position	**$ 60,057,704**	**$ 57,948,541**	**$ 54,927,040**	**$ 2,109,163**	**$ 3,021,501**

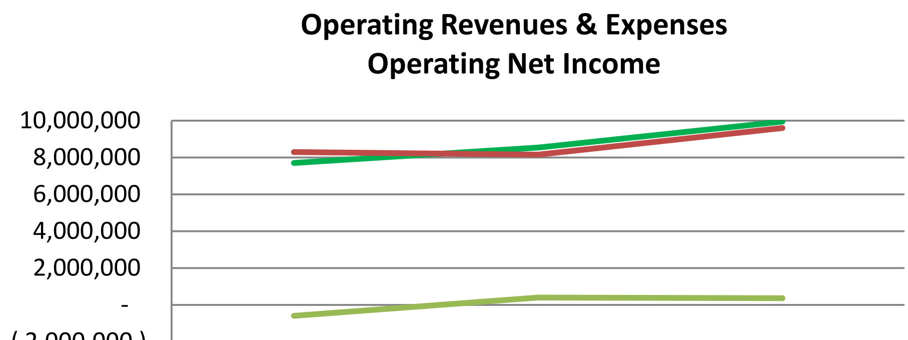
Continue on to next page for the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reflects changes in the Port's financial position during the year (in contrast to the Net Position statement which is a snapshot on December 31, 2014). This statement presents the inflows of revenues and outflows of expenses.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	2014	2013	2012	Increase (Decrease) 2014-2013	Increase (Decrease) 2013-2012
Operating Revenues					
Marine Terminals	$ 3,689,283	$ 2,847,089	$ 2,417,436	$ 842,194	$ 429,653
Marine Trades	320,193	-	-	320,193	-
Log Handling	1,824,233	1,155,730	986,864	668,503	168,866
Airports	1,313,511	351,532	338,675	961,979	12,857
Marinas & Launch Ramps	2,402,135	2,655,211	2,595,774	(253,076)	59,437
Property Rentals	396,086	1,528,578	1,360,021	(1,132,492)	168,557
Total Operating Revenues	**9,945,441**	**8,538,140**	**7,698,770**	**1,407,301**	**839,370**
NonOperating Revenues	**2,292,405**	**2,579,471**	**2,377,828**	**(287,066)**	**201,643**
Total Revenues	**12,237,846**	**11,117,611**	**10,076,598**	**1,120,235**	**1,041,013**
Operating Expenses					
Marine Terminals	1,212,840	1,140,890	1,095,557	71,950	45,333
Marine Trades	368,016	-	-	368,016	-
Log Handling	2,040,793	1,290,030	1,465,856	750,763	(175,826)
Airports	1,627,146	801,099	633,360	826,047	167,739
Marinas & Launch Ramps	1,934,234	2,209,011	2,157,643	(274,777)	51,368
Property Rentals	391,105	752,665	792,751	(361,560)	(40,086)
Depreciation	2,015,826	1,956,293	2,147,857	59,533	(191,564)
Total Operating Expenses	**9,589,960**	**8,149,988**	**8,293,024**	**1,439,972**	**(143,036)**
NonOperating Expense	**1,483,418**	**923,190**	**2,894,204**	**560,228**	**(1,971,014)**
Total Expenses	**11,073,378**	**9,073,178**	**11,187,228**	**2,000,200**	**(2,114,050)**
Income (Loss) before Capital Contributions and Special Items	**1,164,468**	**2,044,433**	**(1,110,630)**	**(879,965)**	**3,155,063**
Capital Contributions	944,695	1,166,144	370,793	(221,449)	795,351
Special Items	-	-	(25,000)	-	25,000
Increase in Net Position	**2,109,163**	**3,210,577**	**(764,837)**	**(1,101,414)**	**3,975,414**
Net Position - January 1	57,948,541	54,927,040	55,691,876	3,021,501	(764,836)
Prior Period Adjustments (See Notes)	-	(189,076)	-	189,076	(189,076)
Net Position - Adjusted	57,948,541	54,737,964	55,691,876	3,210,577	(953,912)
Net Position - December 31	**60,057,704**	**57,948,541**	**54,927,039**	**2,109,163**	**3,021,502**

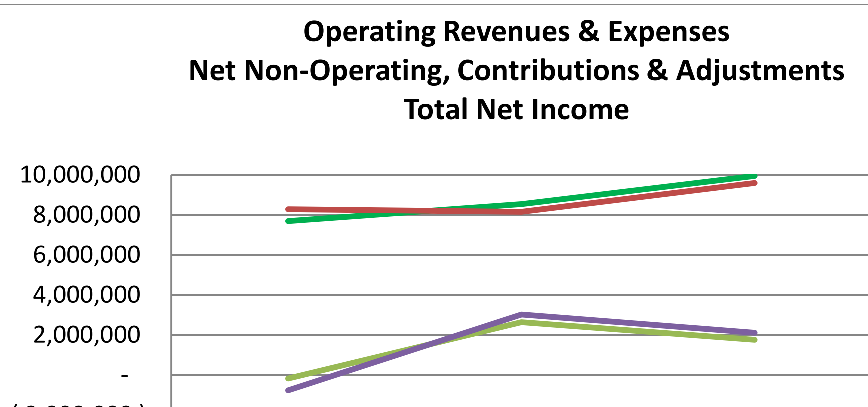
Summary of Operating and Non-Operating Activity

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



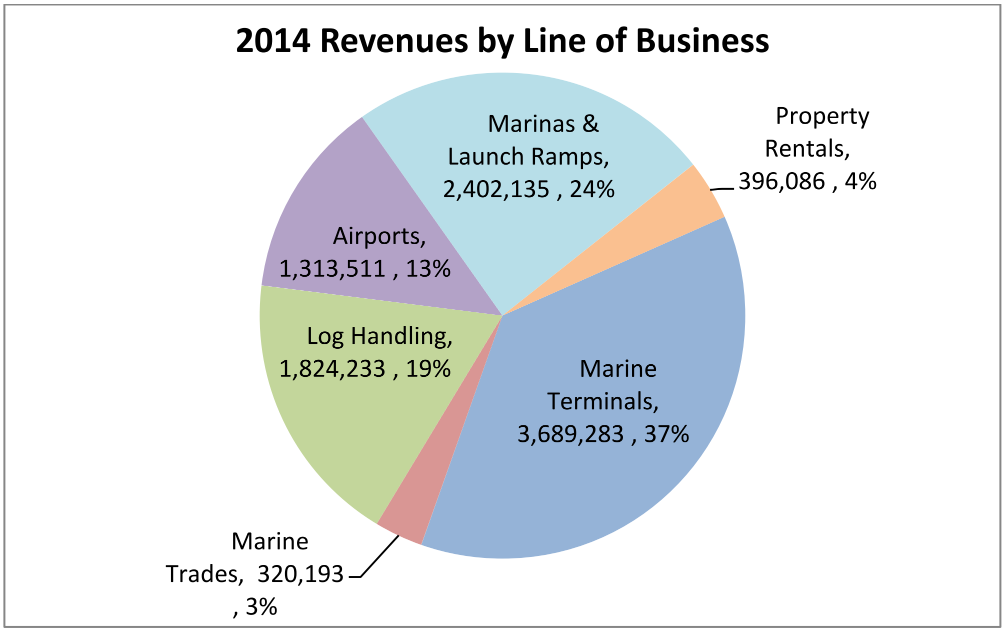
	2012	2013	2014
Operating Revenues	7,698,770	8,538,140	9,945,441
Operating Expenses	8,293,024	8,149,988	9,589,960
Net Operating Income (Loss)	(594,254)	388,152	355,481

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



	2012	2013	2014
Operating Revenues	7,698,770	8,538,140	9,945,441
Operating Expenses	8,293,024	8,149,988	9,589,960
Net Non-Operating, Contributions & Adjustments	(170,583)	2,633,348	1,753,682
Total Net Income (Loss)	(764,837)	3,021,500	2,109,163

In 2014, the primary sources of revenue were from Marine Terminals, Marinas, Log Handling and the Airport industrial properties. Marine Terminals increased 30% and Log Handling increased 58% due to the strong log export market.

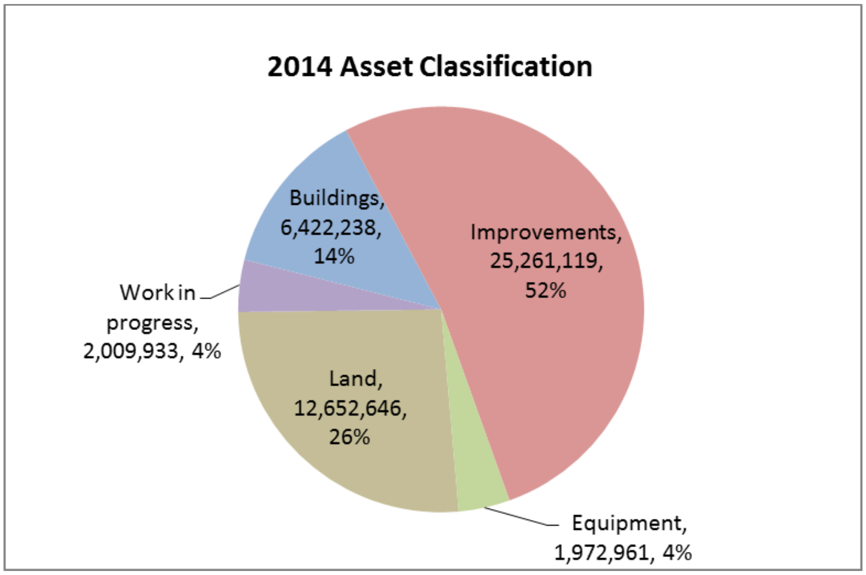


Continue on to next page for Capital Assets

CAPITAL ASSETS

Year Ended December 31, 2014

In 2014, the Port's net capital assets increased by $0.4 million or 0.9% over 2013. The increase included capitalizing $1.7 million of work-in-process and expensing $0.5 million of work-in-process. New capital investments included completing the airport taxiway lighting and signage project, partial construction of the airport access road, boatyard rain garden, renovation work on several facilities (airport parking lot repair, airport building HVAC replacement, boatyard asphalt overlay, boat launch ramp float replacement) and other projects (new marina trash compactors and enclosures, and the purchase of computers, equipment and vehicles). The expensing of work-in-process included the log yard stormwater plan and part of the airport FBO relocation design work for projects that will not be completed in the near term.



Year Ended December 31, 2013

In 2013, the Port's net capital assets decreased by $0.2 million or 0.4% over 2012. The decrease included expensing $0.2 million of work-in-process and an adjustment related to a prior period. The Port made new capital investments of $1.9 million, including work on the airport taxiway lighting and signage project ($0.97 million and the completion of the preliminary design for the relocation of the Fixed Based Operator (FBO) at the Fairchild International Airport ($0.4 million). $0.3 million was contributed to in-process improvements primarily related to the airport. Capitalized maintenance was performed on several boats to support off-water log loading operations.

Net Capital Assets and Change in Year-End Balances

	2014	2013	2012	Net Change 2014 - 2013	Net Change 2013 - 2012
Land	12,652,646	12,640,982	12,640,982	11,664	-
Work in progress	2,009,933	2,214,202	1,051,110	(204,269)	1,163,092
Buildings	6,422,238	6,874,292	7,502,396	(452,054)	(628,104)
Improvements	25,261,119	24,782,354	25,515,891	478,765	(733,537)
Equipment	1,972,961	1,389,389	1,449,981	583,572	(60,592)
	48,318,897	47,901,219	48,160,359	417,678	(259,140)

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

Debt Administration

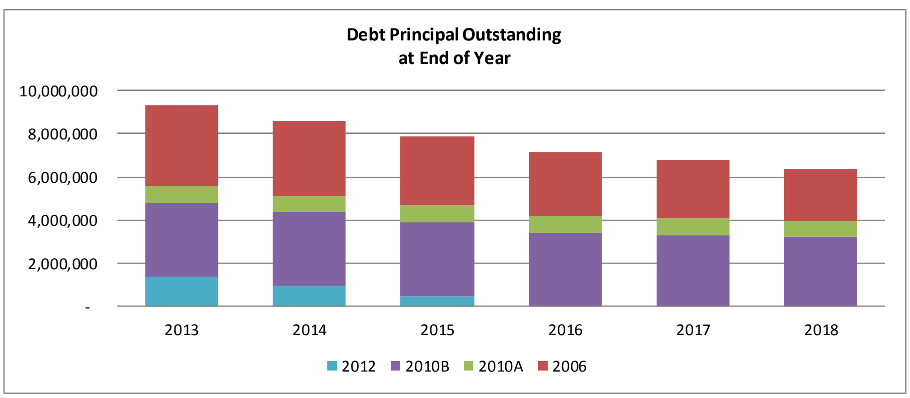
Year Ended December 31, 2014

At December 31, 2014, the Port had general obligation bond debt outstanding (excluding premium/discount) of $8.6 million, of which $715,000 is due within one year. During 2014 the Port made debt principal payments of $695,000. The terms of the debt varies by issue with interest rates ranging from 2.00% to 7.50%. The debt with the 7.50% interest rate is eligible for a rate subsidy, making the effective rate 3.375%. The general obligation bonds will be fully amortized at the end of 2029. The Port uses property taxes for debt service payments. Based on property taxes exceeding current debt payments the Port estimates the excess property taxes would cover an additional $4 million of non-voted general obligation debt. The non-voted debt capacity of the Port was $8.9 million at December 31, 2014. No new bond debt was issued in 2014.

Year Ended December 31, 2013

At December 31, 2013, the Port had general obligation bond debt outstanding (excluding premium/discount) of $9.3 million, of which $695,000 is due within one year. During 2013 the Port made debt principal payments of $680,000. The terms of the debt varies by issue with interest rates ranging from 2.00% to 7.50%. The debt with the 7.50% interest rate is eligible for a rate subsidy, making the effective rate 3.375%. The general obligation bonds will be fully amortized at the end of 2029. The Port uses property taxes for debt service payments. Based on property taxes exceeding current debt payments the Port estimates the excess property taxes would cover an additional $4 million of non-voted general obligation debt. The non-voted debt capacity of the Port was $8.6 million at December 31, 2013. No new bond debt was issued in 2013.

SUMMARY OF GENERAL OBLIGATION DEBT



Debt Outstanding (at end of year)		2013	2014	2015	2016	2017	2018
2006	PABH	3,730,000	3,485,000	3,230,000	2,965,000	2,690,000	2,400,000
2010A	Composite Mfg-Site	760,000	760,000	760,000	760,000	760,000	760,000
2010B	Composite Mfg-Bldg	3,435,000	3,435,000	3,435,000	3,435,000	3,330,000	3,220,000
2012	25 Projects 1993-98	1,385,000	935,000	475,000	-	-	-
	Total Principal Outstanding	**9,310,000**	**8,615,000**	**7,900,000**	**7,160,000**	**6,780,000**	**6,380,000**
	Decrease in Principal	680,000	695,000	715,000	740,000	380,000	400,000
		-	-	-	-	-	-

		Original Principal	2015 thru 2030 Remaining Principal Pymts	Maturity
2006	PABH	4,995,000	3,485,000	Dec 1, 2025
2010A	Composite Mfg-Site	760,000	760,000	Dec 1, 2029
2010B	Composite Mfg-Bldg	3,435,000	3,435,000	Dec 1, 2029
2012	25 Projects 1993-98	1,830,000	935,000	Dec 1, 2016
		11,020,000	8,615,000	

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

PORT OF PORT ANGELES
STATEMENT OF NET POSITION
As of December 31, 2014 and December 31, 2013

	2014	2013
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 8,799,746	$ 6,915,112
Restricted Cash & Cash Equivalents	349,267	911,793
Investments *(2013 Restated)*	1,790,000	805,000
Accounts Receivable, net of allowance	681,549	635,663
Contracts, Notes & Insurance Receivable, current	661,183	750,900
Prepayments and Other Current Assets	378,310	336,512
Grants receivable	281,347	1,323,284
Taxes Receivable	95,317	89,500
Total Current Assets *(2013 Restated)*	**13,036,719**	**11,767,764**
	-	-
NONCURRENT ASSETS		
Investments, net of current portion *(2013 Restated)*	10,987,824	10,405,262
Capital Assets, Net of Accumulated Depreciation	48,318,897	47,901,219
Other Noncurrent Assets:		
Contracts & Note Receivable, net of current portion	28,634	221,065
Total Noncurrent Assets *(2013 Restated)*	**59,335,355**	**58,527,546**
	-	-
TOTAL ASSETS	**72,372,074**	**70,295,310**
	-	-
DEFERRED OUTFLOWS OF RESOURCES	**0**	**0**
CURRENT LIABILITIES		
Accounts Payable	373,724	386,564
Accrued Expenses	244,464	269,240
Customer Deposits & Prepaid Revenues	89,824	70,516
Contracts Payable	88,341	37,765
Custodial Account	41,302	445,135
Long-Term Debt, current portion	728,202	708,202
Environmental Remediation, current portion	990,000	290,000
Total Current Liabilities	**2,555,857**	**2,207,422**
	-	-
NONCURRENT LIABILITIES		
Long-Term Debt, net of current portion	7,918,016	8,646,218
Environmental Remediation, net of current portion	1,030,000	810,000
Employee Leave Benefits	420,055	411,004
Other Post Employment Benefits	390,442	272,126
Total NonCurrent Liabilities	**9,758,513**	**10,139,348**
	-	-
TOTAL LIABILITIES	**12,314,370**	**12,346,770**
	-	-
DEFERRED INFLOWS OF RESOURCES	**0**	**0**
NET POSITION		
Net Investment in Capital Assets	39,872,679	38,746,799
Restricted for Environmental	13,767	158,378
Unrestricted Net Position	20,171,258	19,043,364
TOTAL NET POSITION	**$ 60,057,704**	**$ 57,948,541**
	-	-

The Accompanying Notes Are An Integral Part Of This Statement

PORT OF PORT ANGELES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended December 31, 2014 and December 31, 2013

	2014	2013
OPERATING REVENUES		
Marine Terminals	$ 3,689,283	$ 2,847,089
Marine Trades	320,193	-
Log Handling	1,824,233	1,155,730
Airports	1,313,511	351,532
Marinas & Launch Ramps	2,402,135	2,655,211
Property Rentals	396,086	1,528,578
Total Operating Revenues	**9,945,441**	**8,538,140**
OPERATING EXPENSES		
General Operations	4,199,275	3,406,695
Maintenance	1,230,804	1,079,651
General and Administrative	2,144,055	1,707,349
Depreciation	2,015,826	1,956,293
Total Operating Expenses	**9,589,960**	**8,149,988**
OPERATING INCOME (LOSS)	**355,481**	**388,152**
NONOPERATING REVENUES (EXPENSES)		
Ad Valorem Taxes (general tax levy)	1,401,357	1,385,208
Taxes from Timber & Leasehold Interest	231,546	170,430
Passenger Facility Charges	14,425	15,811
Investment Income	322,657	343,364
Interest Expense	(373,362)	(392,795)
Election Expense	-	(48,438)
Increase (Decrease) in Fair Value of Investments	382,843	(522,419)
Non-Capital Grants	12,174	1,122,209
Environmental Remediation Expense	(1,085,936)	(457,346)
Gain (loss) on retirement of Capital Assets	(65,563)	13,399
Miscellaneous Revenue (Expense)	(31,154)	26,857
Net NonOperating Revenues (Expenses)	**808,987**	**1,656,280**
INCOME (LOSS)		
Before Capital Contributions	**1,164,468**	**2,044,432**
Capital Contributions	944,695	1,166,144
INCREASE IN NET POSITION	**2,109,163**	**3,210,577**
Net Position - January 1	57,948,541	54,927,040
Prior Period Adjustment (see notes)	-	(189,076)
Net Position Adjusted	57,948,541	54,737,964
NET POSITION - December 31	**$ 60,057,704**	**$ 57,948,541**

The Accompanying Notes Are An Integral Part Of This Statement

PORT OF PORT ANGELES
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2014 and December 31, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$9,914,255	$8,391,580
Less: Cash paid to suppliers and employees	(7,501,366)	(6,388,373)
Net Cash Provided (Used) by Operating Activities	**2,412,889**	**2,003,207**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	1,395,540	1,351,817
Timber and leasehold taxes received	231,546	170,430
Cash received from operating grants	921,434	668,027
Cash paid for environmental remediation expenses	(458,282)	(1,248,570)
Other NonOperating revenues (expenses)	(31,154)	(21,581)
Net Cash Provided by (Used in) Noncapital Financing	**2,059,084**	**920,123**
CASH FLOWS FROM CAPITAL & RELATED FINANCING		
Cash received from Passenger Facility Fees	14,425	15,811
Capital contributions from grants	1,077,372	1,047,102
Proceeds from bond issue	0	0
Acquisition and construction of capital assets *(2013 Restated)*	(2,493,084)	(2,030,946)
Principal paid on capital debt	(708,202)	(693,201)
Interest paid on capital debt *(2013 Restated)*	(375,116)	(394,250)
Net Cash Provided by (Used in) Capital & Financing Activities	**(2,484,605)**	**(2,055,484)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	930,000	1,373,157
Purchase of investments	(2,080,000)	(3,744,653)
Interest received on investments & unrealized gain/loss	284,186	309,344
Other: Payment recieved on contract property sales	200,553	25,586
Net Cash Provided (Used) by Investing Activities	**(665,261)**	**(2,036,567)**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**1,322,107**	**(1,168,721)**
Cash and cash equivalents at beginning of year	7,826,905	8,995,626
CASH & CASH EQUIVALENTS END OF YEAR	**9,149,012**	**7,826,905**
RECONCILIATION OF (A) OPERATING INCOME TO		
(B) NET CASH PROVIDED BY OPERATING ACTIVITIES		
(a) Operating Income	355,481	388,152
(b) Net Cash Provided by Operating Activities		
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	2,015,826	1,956,293
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(31,186)	(146,557)
(Increase) Decrease in Inventories & Prepayments	(38,048)	18,560
Increase (Decrease) in Accounts & Other Payables	(12,840)	(428,580)
Increase (Decrease) in Other Accrued Expenses	(23,019)	161,362
Increase (Decrease) in Other Liabilities	146,675	53,980
NET CASH OPERATING ACTIVITIES	**2,412,889**	**2,003,210**
NON-CASH INVESTING & FINANCING ACTIVITIES		
Increase (Decrease) in Fair Value of Investments	382,843	(522,419)

The Accompanying Notes Are An Integral Part Of This Statement

1. Summary of significant accounting policies

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

In March 2012, the Governmental Accounting Standards Board issued GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. The Port implemented GASB 65 for the year ended December 31, 2013. See note on Other Disclosures Prior Period Adjustment for the net result of expensing previously recorded bond issue costs in 2013.

The significant policies are described below.

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

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

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

The Industrial Development Corporation (IDC), a public corporation, is authorized to facilitate the issuance of tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they are used.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation

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

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

Allocation of Expenses

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

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

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

Cash Equivalents

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

Cash Equivalents	Dec 31, 2014	Dec 31, 2013
General Operating	$ 8,799,746	$ 6,915,112
Other Restricted Assets	349,267	911,793
Total	$ 9,149,013	$ 7,826,905

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

Investments

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

See Note 2 for a schedule of Deposits and Investments.

Restricted Cash & Investments

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

Restricted Assets	Dec 31, 2014	Dec 31, 2013
Cash & Investments (Harbor Group Account)	55,069	603,513
Cash & Investments (Debt Service Fund)	200,000	200,000
Cash & Investments (Bond Proceeds Fund)	-	-
Customer Deposits & Prepaids	89,825	70,516
Contractor's Retainage	4,373	37,764
Total	**$ 349,267**	**$ 911,793**

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

Accounts Receivable, Net of Allowance

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

Allowance for Uncollectible Accounts	Dec 31, 2014	Dec 31, 2013
Based on delinquent accounts and historical experience	$ 44,427	$ 29,530

Contracts, Notes and Insurance Receivables

Other receivables include contracts for the sale of real estate, notes for tenant improvements, long-term agreements for the repayment of rent and insurance receivables primarily related to environmental investigations and remediation.

	Dec 31, 2014	Dec 31, 2013
Real Estate Contracts, current	$ 4,617	$ 4,617
Tenant Improvement Note, current	-	22,822
Rent Repayment Agreement, current	14,700	14,700
Insurance Receivables	641,866	708,761
Total Contracts, Notes and Insurance Receivables, Current	**$ 661,183**	**$ 750,900**

Taxes Receivable

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

See Note 3 for more information on Property Taxes.

Grants Receivables, Amounts Due To and From Other Governments

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

Prepayments and Other Current Assets

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

Employee Leave Benefits

The Port accrues unpaid vacation and sick leave benefits as earned. Benefits are payable upon termination, resignation, or retirement. Vacation leave, may be accumulated up to two times the annual vacation amount (annual vacation accrual is 10 to 30 days depending on years of service), is paid at the rate of 100%. Annual sick leave accrual is 96 hours (12 days). Sick leave may be accumulated based on employee status. The annual cash out to VEBA (Voluntary Employees Beneficiary Association is a tax-free post-retirement medical expense account) helps to limit the amount of liability for employee leave benefits. (Represented by ILWU: 400 hours with up to 50 hours annual cash out to VEBA at 75%; Represented by Teamsters: 400 hours with up to 100 hours annual cash out to VEBA at 75%; Non-represented: 175 hours with up to 100 hours annual cash out to VEBA at 75%.) There is no limit on sick leave accrual. Sick leave is paid out at the rate of 75% upon termination.

Employee Leave Benefit Liabilities	Dec 31, 2014	Dec 31, 2013
Unpaid vacation and sick leave	$ 467,955	$ 450,203

2. Deposits and Investments

Deposits

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool.

Pledged securities under the PDPC collateral pool are held by the PDPC agent in the name of the collateral pool. In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance.

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

Investments

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

Deposits & Investments at Fair Value	Dec 31, 2014	Dec 31, 2013
Unrestricted: Cash & Cash Equivalent		
Cash Operations: Financial Institution Deposits	$ 1,787,107	$ 1,656,032
Investments:		
Financial Institution Deposits & Money Market	4,276,379	2,525,549
WA State Local Gvnt Invtmt Pool (LGIP)	2,736,260	2,733,531
Unrestricted Cash & Cash Equivalents	**$ 8,799,746**	**$ 6,915,112**
Restricted: Cash & Cash Equivalent		
Custodial Account - Harbor Group	55,069	603,513
Debt Service Fund & Bond Proceeds	200,000	200,000
Customer Deposits & Prepaids, Contractor Retainage	$ 94,198	$ 108,280
Restricted Cash & Cash Equivalents	**$ 349,267**	**$ 911,793**
Total Cash & Cash Equivalents	**$ 9,149,013**	**$ 7,826,905**
Unrestricted Investments		
U.S. Agency Securities	6,488,126	5,226,037
Municipal Bond Investments located in WA State	$ 6,289,698	$ 5,984,224
Investments	**$ 12,777,824**	**$ 11,210,262**
Total Cash, Cash Equivalents & Investments	**$ 21,926,837**	**$ 19,037,167**

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

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. To minimize this risk, the Port's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping custodian. Of the Port's total investment position in 2014 and 2013, $ 0 is exposed to custodial collateral risk because the investments are held by the Port's brokerage firm, which is also the counterparty in those particular securities.

In 2013 the Port implemented a new investment system, including the amortization of premium/ discount to recognize the impact on interest revenue over the life of the investment. The previous method recognized the premium / discount upon redemption. Investments held as of January 1, 2013 were not restated for the change in method for prior year amortization. The net premium as of

January 1, 2013 was $80,671 which is .9% of total investments. The associated annual amortization is $22,359. The dollar amount of this change is immaterial.

3. Property Taxes

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

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

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

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

Property Taxes	2014	2013
Regular Levy rate per $1,000 of AV	$0.200024	$0.194000
Assessed Valuation (AV) for prior year	$7,002,941,388	$7,173,041,376
Total Regular Levy	$1,400,756	$1,391,570

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

Banked Capacity	Dec 31, 2014	Dec 31, 2013
Did not levy 1%: 2009, 2010, 2012	$26,338	$32,415

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

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

				Amount Collected *(including adjustments)*			
				Dollars		Percent	
Year	Taxable Assessed Value (AV) Prior	Levy Rate per $1,000 AV	Tax Levy (including adjustments)	Year of Levy	As of 12/31/2014	Year of Levy	As of 12/31/2014
2014	7,002,941,388	0.200024	1,400,590	1,375,651	1,375,651	98.2%	98.2%
2013	7,165,818,968	0.194000	1,392,043	1,366,244	1,381,146	98.1%	99.2%

4. **Capital Assets and Depreciation**

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

Capital assets activity for the year ended December 31, 2014 was as follows:

	Dec. 31, 2013	Increases	Decreases	Dec. 31, 2014
Capital Assets not being depreciated:				
Land	12,640,982	11,664	-	12,652,646
Work in Progress	2,214,202	2,061,715	2,265,983	2,009,934
Total Capital Assets Not being Depreciated	**14,855,184**	**2,073,379**	**2,265,983**	**14,662,580**
Capital Assets being depreciated:				
Buildings	14,887,764	-	185,231	14,702,533
Improvements	53,892,098	1,895,439	83,474	55,704,063
Machinery/Equip	4,872,003	798,607	5,040	5,665,570
Total Capital Assets being Depreciated	**73,651,865**	**2,694,046**	**273,745**	**76,072,166**
Less: Accumulated Depreciation				
Buildings	8,013,473	394,130	127,307	8,280,296
Improvements	29,109,742	1,406,765	73,564	30,442,943
Machinery/Equip	3,482,615	215,035	5,040	3,692,610
Total Accumulated Depreciation	**40,605,830**	**2,015,930**	**205,911**	**42,415,849**
Total Capital Assets being Depreciated less Accum Depr	**33,046,035**	**678,116**	**67,834**	**33,656,317**
Total Net Capital Assets	**47,901,219**	**2,751,495**	**2,333,817**	**48,318,897**

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

	Dec. 31, 2012	Increases	Decreases	Dec. 31, 2013
Capital Assets not being depreciated:				
Land	12,640,982	0	0	12,640,982
Work in Progress	1,051,110	2,095,485	932,393	2,214,202
Total Capital Assets Not being Depreciated	**13,692,092**	**2,095,485**	**932,393**	**14,855,184**
Capital Assets being depreciated:				
Buildings	15,146,140	0	258,376	14,887,764
Improvements	53,193,855	698,243	0	53,892,098
Machinery/Equip	4,819,893	52,110	0	4,872,003
Total Capital Assets being Depreciated	**73,159,888**	**750,353**	**258,376**	**73,651,865**
Less: Accumulated Depreciation				
Buildings	7,647,167	406,682	40,376	8,013,473
Improvements	27,742,825	1,366,916	-	29,109,742
Machinery/Equip	3,369,914	182,763	70,062	3,482,615
Total Accumulated Depreciation	**38,759,906**	**1,956,362**	**110,438**	**40,605,830**
Total Capital Assets being Depreciated less Accum Depr	**34,399,982**	**(1,206,009)**	**147,938**	**33,046,035**
Total Net Capital Assets	**48,092,074**	**889,476**	**1,080,331**	**47,901,219**

In 2013 the Port recorded a prior period adjustment to add capital asset improvements for its autoclaves and to remove a HVAC (Heating Ventilation Air Conditioning) capital asset that was a tenant improvement. The presentation of comparative information included a decrease in Net Capital Assets for December 2012 in the amount of $68,284. The dollar amount of this change is immaterial.

See note 17 Other Disclosures, Prior Period Adjustments for more information.

Construction Commitments

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

Construction Commitments as of December 31, 2014 was as follows:

	Project	Spent thru Dec 31, 2014	Remaining Commitment
1	MT T1 Redevelopment	514,086	10,293
2	MTA Ashphalt Overlay	30,014	0
3	LY Boat #6 Engine Replacement	46,321	0
4	LY Stacker #5 Engine Replacement	28,858	0
5	FIA Asphalt Resurfacing	72,818	2,419
6	FIA Parking - Lighting Improvements	5,249	0
7	FIA Entrance Sign Replacement	23,371	0
8	FIA HVAC Upgrade	31,686	0
9	FIA AIP #30 Taxi Light Improvements	434,698	0
10	FIA AIP #31 Taxiway Lighting & Signage	827,140	0
11	FIA AIP #32 GA Access Road	1,011,526	206,033
12	FIA AIP #33 Gate & NAVAID Improvements	77,851	24,639
13	ARP Bldg 1010 HVAC Renovation	24,997	15,510
14	PABH Utility Repalce/Realign	95,559	0
15	PABH Replace Work Float	34,739	0
16	PABH Trash Compactor	28,167	0
17	PABH Trash Compactor Enclosure	34,518	0
18	JWM Deck Resurfacing	60,196	1,954
19	JWM Dumpster Enclosure	20,291	0
20	BY Utility Pole Replacement	9,129	0
21	West Boat Launch Float Replacement	96,996	0
22	Admin Computer Upgrade	36,230	0
23	Admin - Property Management Module	6,226	0
	Total	**$ 3,550,666**	**$ 260,848**

Construction Commitments as of December 31, 2013 was as follows:

	Project	Spent thru Dec 31, 2013	Remaining Commitment
1	MT T1 Redevelopment	371,895	89,013
2	MT Stormwater Treatment	240	0
3	LY Stormwater Treatment	240	0
4	FIA AIP #28 FBO Development I	414,785	11,995
5	FIA AIP #30 Taxiway Lighting Improvement I	288,299	0
6	FIA AIP #31 Taxiway Lighting & Signage	965,720	148,905
7	FIA AIP #32 GA Access Road	17,733	142,736
8	PABH Replace Sewage Pump	16,550	0
9	PABY Sheetpile & Strmwtr System	6,300	0
10	West Boat Launch Float Replacement	96,276	0
11	Admin Computer Software Upgrade	28,746	0
	Total	**$ 2,206,784**	**$ 392,649**

5. Stewardship, Compliance, and Accountability

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

6. Leasing activities

The Port leases a significant portion of industrial and marine terminal land to tenants under operating leases. Minimum future rental revenue on operating leases is as follows:

Dec 31, 2014	Minimum Future Revenue	Dec 31, 2013	Minimum Future Revenue
2015	$1,351,693	2014	$2,188,768
2016	1,190,459	2015	2,102,929
2017	1,039,275	2016	1,820,226
2018	1,037,596	2017	1,710,966
2019	905,401	2018	1,303,818
Thereafter	4,542,072	Thereafter	4,800,345
Total	**$10,066,496**	**Total**	**$13,927,052**

Operating Leases

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

Dec 31, 2014	Minimum Future Payments	Dec 31, 2013	Minimum Future Payments
		2014	$5,477
2015	$5,477	2015	5,477
2016	5,477	2016	5,477
2017	2,777	2017	2,777
2018	2,051	2018	2,051
Total	**$ 13,731**	**Total**	**$ 21,259**
Xerox lease ends Feb 2017		Pitney Bowes lease ends Nov 2018	
Total	**$15,782**	**Total**	**$21,259**

7. Other Noncurrent Assets: Contracts & Notes Receivables

Contracts and notes receivable consist of the following:

	Dec 31, 2014	Dec 31, 2013
Real Estate Contracts	16,713	21,330
Less: Current portion	4,617	4,617
Real Estate Noncurrent portion	$12,096	$16,713
Tenant Improvement Note	0	195,936
Less: Current portion	0	22,822
Tenant Improvements Noncurrent portion	$0	$173,114
Rent Repayment Agreement	31,238	45,938
Less: Current portion	14,700	14,700
Rent Repayment Noncurrent portion	$16,538	$31,238
Total Noncurrent Contracts & Notes Receivable	**$28,634**	**$221,065**

- The real estate contracts are related to two properties sold in the Carlsborg redevelopment area. The first was sold in January 1994 with the final payment scheduled for January 2017. Yearly payments are $3,185.35 plus interest. The second property was sold in January 1995 with the final payment scheduled for January 2019. Yearly payments are $1,431.44 plus interest.
- The tenant improvement note is related to specialized HVAC (heating, ventilation, air conditioning) improvements. Yearly payments are $38,601.21 (includes interest) with final payment in August 2020. In June of 2014 the Port purchased the HVAC improvements from the tenant for the balance of the note.
- The rent repayment is related to assisting in startup of operations by delaying the payment of rent for the first six months. Yearly payments are $14,700 with the final payment in October 2016.

8. Current Liabilities – Custodial Account

This account reflects the liability for net monetary assets held by the Port in its capacity as a custodian per the Participation Agreement for the Western Port Angeles Harbor (“Group”) signed April 14, 2013 which designates the Port of Port Angeles as the Group’s “Cashier”. The agreement terminates upon receipt of a certification by Department of Ecology that the work under the Agreed Order for the Remedial Investigation and Feasibility Study has been satisfactorily completed *(See Note 15. Pollution Remediation Obligations for more information.)* The Port does not have the authority to make independent decisions with the money for the benefit of the Group. Per the agreement the Cashier’s actions are directed by the voting results of the Group, such as to collect partner contributions and to pay consultant invoices.

	Dec 31, 2014	Dec 31, 2013
Custodial Account	$ 41,302	$ 445,135

The Custodial Account balance reflects only the share of assets contributed by the three external Group participants. It does not reflect the Port’s portion. The the balance of funds remaining at the end of the year, are equally split between the other three participants (2014 is $13,767; 2013 is $148,378). The Port’s contributed share, as well as the other Group participants, is reflected in restricted cash. *(See note 15. Pollution Remediation Obligations for more information.)*

9. Accrued Liabilities

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

	Dec 31, 2014	Dec 31, 2013
Payroll, Taxes & Benefits	140,134	150,655
Employee Leave Benefits (current)	47,900	39,200
Excise Taxes (Leasehold, B&O)	(6,833)	199
Bond Interest	33,263	35,020
Other Accrued Expenses	30,000	44,166
Total Accrued Liabilities	**$ 244,464**	**$ 269,240**

10. Long-Term Liabilities

Long-term liabilities activity for the year ended December 31, 2014 was as follows:

	Interest Rate	Year Last Series Matures	January 2014	Additions	Reductions	December 2014	Due Within One Year
General Obligation (GO) Bonds:							
April 20, 2006	4.00 - 4.75	2025	3,730,000	0	245,000	3,485,000	255,000
December 2010 - A	7.50	2030	760,000	0	0	760,000	0
December 2010 - B	4.00 - 5.00	2029	3,435,000	0	0	3,435,000	0
May 10, 2012	2.00	2016	1,385,000	0	450,000	935,000	460,000
GO Bonds			$9,310,000	0	695,000	8,615,000	715,000
(Discount)/Premium			44,420	2,760	15,962	31,218	13,202
Long-Term Debt			**$9,354,420**	**$2,760**	**$710,962**	**$8,646,218**	**$728,202**

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

	January 2014	Net Changes Additions (Reductions)	December 2014	Due Within One Year
Estimated Long-Term Liabilities:				
Environmental Remediation	$1,100,000	920,000	2,020,000	990,000
Employee Leave Benefits	450,203	17,751	467,955	47,900
Other Post Employment Benefits	272,126	118,316	390,442	0
Total Estimated Long-Term	**$1,822,329**	**$1,056,067**	**$2,878,397**	**$1,037,900**

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

Long-term liabilities activity for the year ended December 31, 2013 was as follows:

	Interest Rate	Year Last Series Matures	January 2013	Additions	Reductions	December 2013	Due Within One Year
General Obligation (GO) Bonds:							
April 20, 2006	4.00 - 4.75	2025	3,965,000	0	235,000	3,730,000	245,000
December 2010 - A	7.50	2030	760,000	0	0	760,000	0
December 2010 - B	4.00 - 5.00	2029	3,435,000	0	0	3,435,000	0
May 10, 2012	2.00	2016	1,830,000	0	445,000	1,385,000	450,000
GO Bonds			$9,990,000	0	680,000	9,310,000	695,000
(Discount)/Premium			57,621	7,580	20,781	44,420	13,202
Long-Term Debt			**$10,047,621**	**$7,580**	**$700,781**	**$9,354,420**	**$708,202**

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

	January 2013	Net Changes Additions (Reductions)	December 2013	Due Within One Year
Estimated Long-Term Liabilities:				
Environmental Remediation	$1,800,000	(700,000)	1,100,000	290,000
Employee Leave Benefits	424,639	25,564	450,203	39,200
Other Post Employment Benefits	160,134	111,992	272,126	0
	$2,384,773	**(562,444)**	**$1,822,329**	**$329,200**

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

General Obligation Debt

The aggregate debt service on general obligation debt as of December 31, 2014 was as follows:

Year	Principal	Interest	Total
2015	715,000	390,568	1,105,568
2016	740,000	369,255	1,109,255
2017	380,000	347,168	727,168
2018	400,000	330,405	730,405
2019	415,000	313,680	728,680
2020-2024	2,355,000	1,291,051	3,646,051
2025-2029	2,935,000	714,363	3,649,363
2030-2034	675,000	50,625	725,625
Total	**$8,615,000**	**$3,807,115**	**$12,422,115**

The aggregate debt service on general obligation debt as of December 31, 2013 was as follows:

Year	Principal	Interest	Total
2014	695,000	660,748	1,355,748
2015	715,000	390,568	1,105,568
2016	740,000	369,255	1,109,255
2017	380,000	347,168	727,168
2018	400,000	330,405	730,405
2019-2023	2,260,000	1,386,843	3,646,843
2024-2028	2,800,000	847,250	3,647,250
2029-2033	1,320,000	135,625	1,455,625
Total	**$9,310,000**	**$4,467,866**	**$13,777,866**

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

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

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

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

Limitation of Indebtedness

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

	Dec 31, 2014	Dec 31, 2013
Assessed Valuation (AV) for prior year	$ 7,002,941,388	$ 7,173,041,376
.75% General Purpose Limit	52,522,060	53,797,810
.25% Non-Voted Limit	17,507,353	17,932,603
Outstanding Non-Voted Debt	8,615,000	9,310,000
Non-Voted Debt Capacity	**$ 8,892,353**	**$ 8,622,603**

11. Passenger facility charges

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

12. Pension Plans

Substantially all Port 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 and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

Plan Description

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

Membership in PERS consisted of the following:

PERS Membership *Latest Actuarial Valuation Date for the Plans of June 30, 2012*[1]	
1,176 Participating Employers	
Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	107,073
Active Plan Members Nonvested	43,633
Total Members	**267,081**

<u>Funding Policy</u>

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

[1] GASB Statement 27 does not require the number of participating employers and members to be presented in the notes to the financial statements.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$ 0	$ 150,976	$ 60,001
2013	$ 0	$ 115,239	$ 36,085
2012	$ 0	$ 117,111	$ 32,259
2011	$ 0	$ 115,412	$ 18,714
2010	$ 0	$ 98,945	$ 12,519
2009	$ 0	$ 123,637	$ 9,496

13. Other Post-Employment Benefit (OPEB) Plans

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

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

Plan Description

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

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

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

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

Subsidies

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

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

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

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

Funding Policy

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

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

	Fiscal Year Ending Dec 31, 2014
Determination of the Annual Required Contribution:	
Normal Cost at Year End	72,852
Amortization of Unfunded Actuarial Accrued Liability	87,204
Annual Required Contribution	160,056
Determination of the Annual OPEB Cost:	
Annual Required Contribution	160,056
Net OPEB Obligation Interest	10,885
Net OPEB Obligation Amortization	(15,737)
Annual OPEB Cost	155,204
Determination of the Net OPEB Cost:	
Starting Net OPEB Obligation	272,126
Annual OPEB Cost	155,204
Contributions	(36,888)
Net OPEB Obligation	390,442

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

Fiscal Year Ended	Annual OPEB Cost	Contributions	Contribution as a % of OPEB Cost	Net OPEB Obligation
12/31/2014	$ 155,204	$ 36,888	23.77%	$ 390,442

Funded Status and Funding Progress

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

Fiscal Year Ended	Funded Status Amount	Funded Status Percent
12/31/2014	$0	0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The following supplementary information will present multi-year trend information as it becomes available, which will show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Methods and Assumptions

We used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.20 was assumed for all active members to determine the Actuarial Accrued Liabilities (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2013 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligations (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

14. **Risk Management**

The Port maintains commercial insurance coverage against most normal hazards:

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

The Port is self-insured for unemployment insurance coverage. The Port has reserved $7,500 to cover the estimated average annual cost based on a review of claims over a 10 year period.

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

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

15. Pollution Remediation Obligations

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

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

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

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

Amount of Estimated Liability

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

	Basis of Obligation for 2014	Dec 31, 2014	Dec 31, 2013
Marine Trades Area	**2014** Engineering and consultant cost estimates (2015-2019) of $1.65 million, other costs of $.11 million, offset by anticipated recoveries of $1.62 million. **2013** Engineering and consultant cost estimates (2014-2018) of $3.1 million, offset by anticipated recoveries of $2.4 million.	$ 140,000	$ 700,000
K-Ply Site[1]	**2014** Engineering and consultant cost estimates (2015-2019) of $5.98 million, other costs of $.13 million, offset by anticipated recoveries of $5.67 million. **2013** Engineering and consultant cost estimates (2014-2018) of $800,000, offset by anticipated recoveries of $600,000.	$ 440,000	$ 200,000
Western Harbor Area	**2014** Engineering and consultant cost estimates (2015-2019) of $1.91 million, other costs of $.12 million, offset by anticipated recoveries of $1.86 million. [2] **2013** Engineering and consultant cost estimates (2014-2018) of $2.6 million, offset by anticipated recoveries of $2.4 million.	$ 170,000	$ 200,000
Program-wide	**2014** Litigation cost estimates (2015-2019) of $1.27 million, offset by anticipated recoveries included above with each site.	$ 1,270,000	$ 0
Total		**$ 2,020,000**	**$ 1,100,000**

[1] K-Ply site: the above obligation does not include available grant funds. The Port was awarded a $2 million Department of Ecology grant effective March 1, 2012 through October 31, 2016. During 2012 through 2014 $1.4 million of grant funds were earned. The remaining balance of $.6 million is available through October 31, 2016. In 2015 the Port received $1.8 million insurance payment for prior costs paid by grant funds and Port funds. The insurance proceeds will be used to reimburse prior grant funds from Ecology, thus making these same funds available for future costs, which could include the remediation phase of the K-Ply project and potentially other sites.

[2] As of December 31, 2014 information on a proposed cleanup remedy for the Western Harbor Area site was not available or reasonably determinable. The Port estimated completion the RI/FS (Remedial Investigation/Feasibility Study) and ongoing pollution monitoring liability as a minimum obligation.

Summary of Environmental Sites

Site	Ownership	PLPs per Ecology	Recoveries	Timing
Marine Trades Area (MTA)	Port of PA Westport *(Port sold part of the property but retained liability)* Pettit Oil *(In 2014 Pettit Oil underwent bankruptcy. Chevron, as the former owner, will address the contamination for this part of the site.)*	Port of PA ARCO Chevron	Insurance, named PLPs, potential of other unnamed PLPs	2013: Completed RI/FS and DCAP 2014-2016: Approval and implementation of CAP 2017-2019: Operating costs of CAP
K-Ply Site	Port of PA	Port of PA Rayonier *(see DE 90-S255)* ExxonMobil	Insurance, Grant funds, potential of unnamed PLPs	2014: Draft RI/FS & DCAP 2015: Approval and implementation of CAP 2016-2019: Monitoring costs of CAP
Western Harbor Area	State Dept of Natural Resources (DNR)	Port of PA City of PA Nippon Paper Merrill & Ring Georgia Pacific Owens Corning WA DNR	Insurance, named PLPs, potential of other unnamed PLPs	2014-2015: Draft RI/FS and approval 2016-2019: monitoring until CAP is defined

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

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

Methodology for Amount of Estimated Liability

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

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

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

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

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

Summary of Next Benchmark Events

Site	Anticipated Benchmark Event
Marine Trades Area	Acceptance by Ecology of draft cleanup plan (expected in late 2015).
K-Ply Site	Acceptance by Ecology of remedial investigation/feasibility study and draft cleanup plan (expected in mid 2015).
Western Harbor Area	Acceptance by Ecology of remedial investigation/feasibility study (expected in mid-2016).

<u>Nature and Source of Pollution Remediation Obligations</u>

<u>Marine Trades Area</u>

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

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

In August 2013, the Final Remedial Investigation/Feasibility Study was accepted by Ecology. Then in December 2013, a Draft Cleanup Action Plan was submitted to Ecology.

K-Ply Site

In the mid-1920s, prior to being filled by dredge material, the site consisted of a tidal flat with several small wood mills. In the late 1920s the Port developed the Terminal 1 Pier and Standard Oil constructed a wooden pier for oil-barge unloading activities. In 1941, the Peninsula Plywood Mill was constructed and began operations on 12 acres of filled tidelands leased form the Port. ITT Rayonier purchased the mill in 1971 and operated the mill through 1989, when they sold the mill to Klukwan who renamed the mill K-Ply. K-Ply operated as a plywood and veneer mill through 2007. The mill sat vacant between 2007 through 2010, and then was briefly re-opened as PenPly and operated through December 2011.

During the time the mill operated, hydraulic oil leaked from press machinery to soil and pooled on groundwater under the mill structure. In 1990 Ecology issued an agreed order (DE 90-S255) to Rayonier to clean up the hydraulic oil, including extraction, oil recovery and long-term monitoring. Soil cleanup was required for pentachlorophenol impacted soil found in the Panel Oiler area. ITT Rayonier continues to remain liable under the 1990 agreed order which is separate from the Port's agreed order.

On October 15, 2012 the Port entered into an agreed order with the Department of Ecology (DE 9546) that separated the K-Ply mill site (the eastern area of contamination) from the Marine Trades Area Site. The order requires demolition of mill structures, a draft Remedial Investigation/Feasibility Study (RI/FS), and a draft cleanup action plan. The Port intends to redevelop the site as a Marine Trades Industrial Park.

After completing the interim action of the mill demolition and testing at the mill site, more information was obtained on the extent and primary source of gasoline contamination. Historical records indicated the pipeline was installed sometime prior to the mill construction of 1941 and was in operation until approximately October 1968 when it was taken out of service and replaced with pipeline #5. These pipelines served a bulk fuel storage facility named Peninsula Fuel for Mobil Oil. The Port provided Ecology the line of credible evidence with reference to ownership and operation of pipeline #8. With the submission of the RI/FS to Ecology on May 21, 2014, Ecology issued a PLP determination to Exxon/Mobil on November 6, 2014.

The Port submitted a Draft Public Review RI/FS and Draft CAP to Ecology in November 2014. On May 19, 2015 the Port entered into an agree order with Ecology (No. DE 11302) that requires the implementation of the CAP. The cleanup of the K-Ply site is scheduled for August through October 2015.

Western Harbor Area Site

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

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

- Georgia Pacific, through a series of mergers and acquisitions is the successor of interest to the owner or operator of a paper mill that released or disposed of hazardous substances. They also leased aquatic lands to facilitate operations.

- Nippon Paper Industries USA is the owner and operator of a paper mill and has a lagoon which is connected by a channel to the harbor. Nippon also leased aquatic lands for its operations.
- Merrill & Ring was the owner and operator of a lumber mill facility and conducted operations on its property and on property leased from the Port. Merrill & Ring also leased aquatic lands for its operations.
- City of Port Angeles has operated eleven combined sewer overflow (CSO) discharge points that discharged untreated wastewater and stormwater directly into the harbor.
- Owens Corning, through a series of acquisition and restructurings, is the successor of interest to the Fibreboard Corporation which owned and operated a mill that released or disposed of hazardous substances. They also leased aquatic lands to facilitate operations.

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

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

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

The Port of Port Angeles, as Group Cashier, is responsible for (i) managing the Group Account ; (ii) sending out assessments to each Participant for its share of Group Remedial Costs; (iii) sending out a current ledger of the Group Account to each Participant prior to each vote on further assessments of Group Remedial Costs; (iv) making deposits; (v) signing checks for the payment of Group Remedial Costs; (vi) sending default notices for non-payment; and (vii) such other duties as the Participants may delegate. The Group agreement does not create a partnership or joint venture and/or a principal and agent relationship between or among the Participants or their representatives, because the purposes and actions of the Group are specifically limited to payment of authorized costs pursuant to Agreed Order DE 9781. The Group Agreement will automatically terminate upon receipt of a certification by Ecology that the "work" under Agreed Order DE 9781 has been satisfactorily completed. The Agreed Order identifies a completion date of the work as December 2014. Ecology approved the extension based on a series of technical data submissions and review periods. Currently we estimate the new submission date for the RI/FS will be mid October 2015. Subject to a number of variables within the Agreed Order schedule the estimated final RI/FS will be approved summer of 2016.

The Group contributions and share of costs was as follows:

	Dec 31, 2014	Dec 31, 2013
Other PLP Beginning Balance	$ 445,135	$ 0
Other PLP Contributions	30,000	1,142,625
Other PLP Share of Group Costs	433,833	697,491
Ending Balance of Other PLP	41,302	445,134
Port Beginning Balance	158,378	0
Port Contribution	0	390,875
Port Share of Group Costs	144,611	232,497
Ending Balance of Port	13,767	158,378
Total Group Ending Balance	**55,069**	**603,513**

In December 2013, the Group approved a $40k service contract with a consultant. Each Participant agreed to fund ¼ of the total cost or $10k each. By December 31, 2013 only the Port of Port Angeles had deposited their $10k share into the Group account. The other three PLP Participants made their share deposits in early 2014, resulting in a difference between the Port and the other PLP share balances in the custodial account at December 31, 2013. In 2014 the Port and other PLP share ending balances reflect the 25% share per each PLP.

In August 2013 the Port received notification of Natural Resource Damages Claim being sought by Port Angeles Harbor Natural Resource Trustee Council (Trustees). The Trustees are the National Oceanic and Atmospheric Administration (NOAA) of the U.S. Department of Commerce, the United States Fish and Wildlife Service of the U.S. Department of Interior (USFWS), the Washington Department of Ecology (Ecology), the Lower Elwha Klallam Tribe, the Port Gamble S’Klallam Tribe, and the Jamestown S’Klallam Tribe. On May 1, 2014 the Port received a proposed natural resource damage assessment from the Trustees. Their assessment provided a range of damages for the entire harbor (approximately 2100 acres) from 508 to 1,323 discounted service acre years (DSAYs). The Port as one member of the Western Harbor Group is evaluating the Trustees claim. The amount of liability, if any, and actual damages is undeterminable at this time. There has been no action on this matter at this time.

16. Contingencies

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

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

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

17. Other Disclosures

In 2014 there were no prior period adjustments.

In 2013 the Port identified two assets that were constructed during 2010 and were incorrectly recorded. A grant funded asset (improvements to autoclaves) in the amount of $250,000 was not recorded as an asset, although the grant revenue was correctly recorded. Another asset (HVAC system), in the amount of $269,999 was constructed by the Port but sold-back as a tenant improvement, was not removed. The net decrease in assets of $19,999 was recorded to the beginning balance of Capital Assets and beginning balance of Net Position as a prior period adjustment. The net decrease in associated depreciation of $41,957 and was recorded as a prior period adjustment to the beginning balance of Net Position.

GASB 65 covers Items Previously Reported as Assets and Liabilities. The Port implemented GASB 65 for the year ended December 31, 2013 which resulted in a decrease in assets and a decrease in Net Position of $127,118. The Port previously recorded bond issue costs as an asset and amortized the asset over the life of the bond. GASB 65 now requires bond issue costs to be expensed in the year incurred.

Prior Period Adjustments	**For Year Ending Dec 31, 2014**	**For Year Ending Dec 31, 2013**
Beginning Net Position	57,948,541	54,927,040
Remove bond issue costs per GASB 65	-	(127,119)
Remove HVAC add Autoclave (net decrease in asset)	-	(19,999)
Remove HVAC deprec	-	26,328
Add Autoclave deprec	-	(68,285)
Total Impact of Adjustments	**-**	**(189,076)**
Adjusted Beginning Net Position	**57,948,541**	**54,737,964**
Increase in Net Position	2,109,163	3,210,576
Ending Net Position	**60,057,704**	**57,948,541**

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. Key changes include: all maintenance activity is presented in Maintenance, previously, maintenance charged directly to operating units was in General Operations; and, investments are presented between Current and Noncurrent Assets, previously investments were in Noncurrent Assets.

Line of Business Presentation Change: In 2014, approximately $1 million in rental revenues and approximately $0.3 million in related expenses were moved from Property Rentals to Airports for leased assets (land, buildings and improvements) that are located within the boundaries of the airport layout plan. Also, passenger facilities charges are presented in Non-Operating activity instead of Airports.

Subsequent Events

In January 2015 the Port filed a law suit against the insurance carriers for coverage determination and damages on its three environmental sites (Marine Trades Area, K-Ply Site and Western Harbor Area). For more information see Note 15 Pollution Remediation Obligations.

In August 2015 the Port Commission authorized the issuance of a limited tax general obligation refunding bond in the aggregate principal amount of not to exceed $3,350,000, to provide funds to refund the outstanding balance of 2006 Bond issue. The net present value savings of the refunding is approximately $300k. The anticipated issue date of the bond is October 2015.

2014 Financial Statements
As of December 31, 2014 information regarding insurance reimbursement for the K-Ply mill demolition costs was unresolved due to a disagreement over the proper characterization of costs covered by insurance benefits. In April 2015 the Port received an insurance payment for the amount of the K-Ply mill demolition costs of approximately $1.8 million. See Note 15 Pollution Remediation Obligations for more information.

2013 Financial Statements
As of December 31, 2013 a proposed cleanup remedy for the K-Ply site was not available or reasonably determinable. The Port estimated an ongoing pollution monitoring liability as a minimum obligation. A subsequent event occurred in late May 2014. The first estimate for the environmental cleanup cost at K-Ply ranged from $2.3 million to $7.7 million. A preferred cleanup remedy cost estimate was calculated based on a disproportionate cost analysis (per MTCA regulations) and came in at $5 million. This assumes no sediment cleanup for the site. Assuming a continuation of insurance reimbursements, the Port’s liability before grants and potential recovery from PLPs, could be approximately $2 million. The proposed cleanup remedies have not yet been reviewed by Department of Ecology.

REQUIRED SUPPLEMENTAL INFORMATION

Other Postemployment Benefits
Schedule of Funding Progress

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2014	$0	$1,507,940	$1,507,940	0%	$2,619,056	58%
12/31/2013	$0	$1,395,669	$1,395,669	0%	$2,249,402	62%
12/31/2012	$0	$1,866,869	$1,866,869	0%	$2,301,349	81%
12/31/2011		Not reported				

FAIRCHILD INTERNATIONAL AIRPORT

SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED

Year Ended December 31, 2014

	Mar-14	Jun-14	Sep-14	Dec-14	Total
Unexpended PFCs and Interest, Beginning of Period	$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	2,323.25	5,508.30	3,888.48	2,705.24	14,425.27
Interest Earned	0.00	0.00	0.00	0.00	0.00
Total	2,323.25	5,508.30	3,888.48	2,705.24	**$14,425.27**
Expenses/Expenditures	2,323.25	5,508.30	3,888.48	2,705.24	**$14,425.27**
Unexpended PFC and Interest	0.00	0.00	0.00	0.00	**0.00**

Year Ended December 31, 2013

	Mar-13	Jun-13	Sep-13	Dec-13	Total
Unexpended PFCs and Interest, Beginning of Period	$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	4,685.28	1,404.29	4,252.02	5,469.87	15,811.46
Interest Earned	0.00	0.00	0.00	0.00	0.00
Total	4,685.28	1,404.29	4,252.02	5,469.87	**$15,811.46**
Expenses/Expenditures	4,685.28	1,404.29	4,252.02	5,469.87	**$15,811.46**
Unexpended PFC and Interest	0.00	0.00	0.00	0.00	**0.00**

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

1. BASIS OF ACCOUNTING

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

2. PROGRAM COSTS

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

Port of Port Angeles
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
Other Programs							
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0047-031	-	17,986	17,986	1, 2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0047-032	-	855,902	855,902	1, 2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0047-033	-	69,605	69,605	1, 2
			Total CFDA 20.106:	**-**	**943,493**	**943,493**	
			Total Federal Awards Expended:	**-**	**943,493**	**943,493**	

The accompanying notes are an integral part of this statement.

PORT OF PORT ANGELES, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Port of Port Angeles financial statements. The Port of Port Angeles uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long term liabilities are accounted for in the appropriate fund(s).

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

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

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port of Port Angeles portion, are more than shown.

**Final review of award 3-53-0047-028 resulted in over-reported expenditures of $3,080 in FY2013.
**Final review of award 3-53-0047-030 resulted in over-reported expenditures of $6,727 in FY2013

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