Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Longview

Cowlitz County

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

Published November 20, 2017
Report No. 1020220

Office of the Washington State Auditor
Pat McCarthy

November 20, 2017

Board of Commissioners
Port of Longview
Longview, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Port of Longview
Cowlitz County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Longview
Longview, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Longview, Cowlitz County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated November 14, 2017. The Port declined to report an environmental liability due to ongoing litigation, for the year ended December 31, 2016. Accordingly, our report was modified to reflect a qualified opinion on the fair presentation of the financial statements for this departure from accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

November 14, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Longview
Cowlitz County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Longview
Longview, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Longview, Cowlitz County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Longview, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

November 14, 2017

FINANCIAL SECTION

Port of Longview
Cowlitz County
January 1, 2016 through December 31, 2016

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PORT OF LONGVIEW
Management's Discussion and Analysis
Years ended December 31, 2016 and 2015

INTRODUCTION

The following is the Port of Longview's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal years ended December 31, 2016, with selective comparative information for the year ended December 31, 2015. Information contained in the MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes which immediately follow this discussion.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position tell us whether the Port's financial position has improved as a result of the year's activities. The Statement of Net Position presents information on all of the Port's assets and liabilities and deferred inflows and outflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Position show how the Port's net position changed during the year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows (Accrual Basis).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. For external reporting purposes, the Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

FINANCIAL ANALYSIS

Condensed Financial Position Information

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

Financial Highlights

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by $102.6 million in 2016, reported as total net position. Total net position increased by $7.1 million as compared to the reported prior year as a result of net income of $4.4 million and the recognition of $2.7 million in capital contributions primarily associated with the Port's assumption of Willow Grove Park from Cowlitz County.

- Total assets and deferred outflows of resources increased by $3.4 million from 2015 due primarily to a $1.7 million increase in accounts receivable, a $2.0 million increase in capital assets and a $0.2 million increase in deferred outflows offset by a reduction of $0.5 million in cash and cash equivalents and investments.

- Total liabilities and deferred inflows of resources decreased by $3.7 million from the prior year due primarily to a $3.6 million reduction in outstanding long term debt relating to limited tax general obligation bonds, revenue bonds, notes and loans payable, capital leases and employee leave benefits; a $0.5 million reduction in current liabilities associated primarily with trade payables; and a $0.2 million reduction in deferred inflows offset by a $0.6 million increase in OPEB and net pension liability.

The following condensed financial information provides an overview of the Port's financial position for the years ended December 31, 2016 and 2015.

STATEMENT OF NET POSITION

	2016	2015
ASSETS		
Current and restricted assets	$24,400,513	$23,081,233
Capital assets, net	105,740,746	103,702,934
Other noncurrent assets	1,163,537	1,294,630
Total Assets	131,304,796	128,078,796
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows – Pensions	478,357	308,373
Total Deferred Outflows of Resources	478,357	308,373
LIABILITIES		
Current liabilities	6,383,005	6,838,543
Noncurrent liabilities	19,853,845	23,320,987
Net pension liability	2,812,461	2,370,086
Total Liabilities	29,049,311	32,529,616
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows – Pensions	84,851	350,016
Total Deferred Inflows of Resources	84,851	350,016
NET POSITION		
Net investment in capital assets	83,367,251	77,957,196
Restricted	1,352,041	1,510,371
Unrestricted	17,929,699	16,039,970
Total Net Position	$102,648,991	$95,507,537

Summary of Operations and Changes in Net Position

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

Revenues:

- Total operating revenues in 2016 increased by $0.2 million or 0.5% from 2015 operating revenues. Marine terminal charges comprise 96% of total operating revenues with the balance earned from property leases and rentals, miscellaneous revenues and boat launch revenue.

Expenses:

- Total 2016 operating expenses, before depreciation, decreased by $0.2 million or 0.9% from 2015 operating expenses. Operating income, after depreciation, was $3.5 million at December 31, 2016 as compared to $3.3 million at 2015 year end.

Non-Operating:

- 2016 total non-operating revenue (expenses) decreased $1.1 million from 2015, resulting primarily from a one-time asset impairment expense of $.9 million relating to the Port's Krupp container crane and bulk handling equipment at Berth 1 which are no longer in service.

A summarized comparison of the Port's Statement of Revenues and Expenses and Changes in Net Position for years ending December 31, 2016 and 2015 begins on the following page.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	2016	2015
OPERATING REVENUES:		
Marine terminal operations	$36,835,659	$36,650,794
Property lease/rental operations	1,317,649	1,316,218
Sales and miscellaneous revenues	968	4,515
Willow Grove boat launch revenue	22,555	
Total Operating Revenues	$38,176,831	$37,971,527
OPERATING EXPENSES:		
General operations	20,871,339	22,383,683
Maintenance	4,815,727	4,244,260
General and administrative	4,980,288	4,844,140
Willow Grove Park expenses	535,106	
Depreciation	3,438,820	3,187,491
Total Operating Expenses	34,641,280	34,659,574
Operating Income (Loss)	$3,535,551	$3,311,953
NONOPERATING REVENUES (EXPENSES):		
Ad valorem taxes	3,083,137	3,267,356
Investment income	82,067	29,259
Other nonoperating revenues	235,932	333,501
Interest expense	(1,030,462)	(1,133,484)
Net Gain/Loss on disposal of assets	(59,100)	(147,966)
Asset Impairment Expense	(906,767)	
Other nonoperating expenses	(491,864)	(297,371)
Total Nonoperating Revenues (Expenses)	912,943	2,051,295
Income (loss) before capital contributions	$4,448,494	$5,363,248
Capital Contributions	2,692,960	651,793
Increase (decrease) in net position	7,141,454	6,015,041
Net position - beginning	95,507,537	92,512,112
Change in Accounting Principle		(2,445,575)
Prior Period Adjustment		(574,039)
Net position - ending	$102,648,991	$95,507,538

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Port's investment in capital assets for its business activities as of December 31, 2016, totaled $105.7 million, net of accumulated depreciation. The Port's investment in capital assets includes land, berths, dolphins, floats, buildings, improvements (other than buildings), machinery and equipment, construction in process and intangible assets. The total increase in the Port's investment in capital assets the year ended December 31, 2016 was $2.0 million or 2.0%.

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

Long-Term Liabilities

At December 31, 2016, the Port's long-term liabilities totaled $22.7 million. These liabilities include: $9.2 million in limited tax general obligation debt; $5.8 million in revenue bonds secured by revenue sources of the Port; $2.0 million for notes/loans payable; $1.4 million for employee leave benefits and other post-employment benefits; $1.4 million in capital leases; and a net pension liability of $2.8 million.

Additional information on the Port's long-term debt activity may be found in Note 12 of this report.

ECONOMIC FACTORS

Throughout 2016, the Port continued to maintain a competitive position in the maritime business.

The Port had 260 vessel calls, totaling 8.3 million metric tons of cargo. Overall, import cargo of 192,133 metric tons was up approximately 5% from the previous year's total of 182,839 metric tons. Export cargos increased to 8.1 million from 6.3 metric tons in 2015, representing an increase of 29%.

Export cargo shipments dominated the overall maritime activity at the Port in 2016. Grain exports at Berth 9, log shipments, and bP's calcined coke exports were the largest and most profitable commodities during the year.

Import shipments were stronger in 2016, as the Port saw an increase in import fertilizers and calcined petroleum coke.

The top five trading partners in 2016 included China, Korea, Japan, the Philippine Islands and Taiwan. Other trading partners included Australia, Vietnam, Indonesia, Canada, Saudi Arabia, Brazil, and more. Commodities included bulk agricultural products, logs, steel and steel products, soda ash, calcined coke, iron oxide fines, potash, wind equipment, bentonite clay and other bulk products.

Requests for Information

This financial report is designed and intended to provide a general overview of the Port of Longview's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Port of Longview, Chief Financial Officer, 10 Port Way, Longview, WA 98632.

MCAG No. 1707

PORT OF LONGVIEW

STATEMENT OF NET POSITION

For the Year Ended December 31, 2016

ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	$16,993,969
Restricted Cash and Cash Equivalents	188,504
Investments	514,284
Accounts Receivable (Net)	6,198,721
Taxes Receivable	126,299
Prepayments	378,736
TOTAL CURRENT ASSETS	**24,400,513**
NONCURRENT ASSETS:	
Capital Assets not Being Depreciated:	
Land	36,517,142
Construction in Progress	1,552,714
Total Capital Assets Not Being Depreciated	38,069,856
Capital Assets Being Depreciated:	
Berths, dolphins, floats	32,602,019
Buildings and structures	35,395,275
Machinery and equipment	28,780,465
Other improvements	28,771,070
Intangible Assets	30,521
Total Capital Assets Being Depreciated	125,579,350
Less: Accumulated depreciation	(57,908,460)
Total Capital Assets (Net)	105,740,746
Other Noncurrent Assets:	
Restricted Investments	1,163,537
TOTAL NONCURRENT ASSETS	**106,904,283**
TOTAL ASSETS	**$131,304,796**
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows - Pensions	$478,357
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$478,357**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MCAG No. 1707

PORT OF LONGVIEW

STATEMENT OF NET POSITION

For the Year Ended December 31, 2016

LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable	2,276,072
Accrued Payables	25,559
Accrued Interest Payable	125,090
Current Portion of LTGO Bonds	1,070,000
Current Portion of Revenue Bonds	1,730,000
Current Portion of Other Long-Term Debt	307,661
Current Portion of Capital Leases	846,613
Other Current Liabilities	2,010
TOTAL CURRENT LIABILITIES	**6,383,005**
NONCURRENT LIABILITIES:	
L.T. General Obligation Bonds	9,217,068
Revenue Bonds	5,775,272
Notes and Loans Payable	2,018,081
Capital Leases	1,408,800
Employee Leave Benefits	541,647
Other Post Employment Benefits (OPEB)	892,977
Net Pension Liability	2,812,461
TOTAL NONCURRENT LIABILITIES	**22,666,306**
TOTAL LIABILITIES	**$29,049,311**
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows - Pension	84,851
TOTAL DEFERRED INFLOWS OF RESOURCES	**$84,851**
NET POSITION:	
Net Investment in Capital Assets	83,367,251
Restricted	1,352,041
Unrestricted	17,929,699
TOTAL NET POSITION	**$102,648,991**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF LONGVIEW

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016

OPERATING REVENUES:	
Marine terminal operations	$36,835,659
Property lease/rental operations	1,317,649
Sales and miscellaneous revenues	968
Willow Grove Boat Launch Revenue	22,555
Total Operating Revenues	**38,176,831**
OPERATING EXPENSES:	
General operations	20,871,339
Maintenance	4,815,727
General and administrative	4,980,288
Willow Grove Park Expenses	535,106
Depreciation	3,438,820
Total Operating Expenses	**34,641,280**
Operating Income (Loss)	**3,535,551**
NONOPERATING REVENUES (EXPENSES):	
Investment income	82,067
Taxes levied for:	
Capital improvements	1,645,533
Debt service principal/interest	1,437,604
Other nonoperating revenues	235,932
Interest expense	(1,030,462)
Special projects	(319,318)
Net Gain/Loss on disposal of assets	(59,100)
Airport Expense	(76,000)
Asset Impairment Expense	(906,767)
Other nonoperating expenses	(96,546)
Total Nonoperating Revenues (Expenses)	**912,943**
Income (loss) before capital contributions	**4,448,494**
Capital Contributions	2,692,960
Increase (decrease) in net position	**7,141,454**
Net position - January 1	95,507,537
Net position - December 31	**$102,648,991**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF LONGVIEW

STATEMENT OF CASH FLOWS

For Year Ended December 31, 2016

Cash flows from operating activities	
Cash received from customers	$ 36,491,521
Cash payment for goods and services	(24,201,739)
Cash payments to employees	(7,348,106)
Other receipts	76,899
Other payments	(489,388)
Net cash provided by operating activities	4,529,187
Cash flows from noncapital financing activities	
Proceeds from miscellaneous taxes	136,446
Proceeds from unrestricted property taxes	1,647,679
Misc non-operating receipts	22,588
Net cash provided (used) by noncapital financing activities	1,806,713
Cash flows from capital and related financing activities	
Proceeds from taxes - restricted for debt	1,437,604
Payment on loans and notes	(350,353)
Payment on capital lease	(759,627)
Purchase of fixed assets	(3,296,463)
Payment of bonds	(2,705,000)
Interest and fiscal charges paid	(1,248,616)
Net cash used for capital and related financing activities	(6,922,455)
Cash flows from investing activities	
Receipts of interest and dividends	82,067
Payments for investments	(1,677,821)
Net cash provided from investing activities	(1,595,754)
Net increase (decrease) in cash	(2,182,309)
Cash and cash equivalents - January 1	19,364,782
Cash and cash equivalents - December 31	$ 17,182,473

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF LONGVIEW

STATEMENT OF CASH FLOWS

For Year Ended December 31, 2016

Reconciliation of operating income to net cash provided (used) by operating activities	
Net operating income (loss)	$ 3,535,551
Adjustments to reconcile net operating income to net cash provided by operating activities	
Depreciation	3,438,820
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	(1,685,310)
Increase (decrease) in accounts payable	(414,462)
Decrease (increase) in prepaid items	(9,511)
Increase (decrease) in other payables	(11,483)
Increase (decrease) in employee leave benefits	80,847
Increase (decrease) in other accrued liabilities	7,226
Other receipts (payments)	(412,491)
Total adjustments	993,636
Net cash provided by operating activities	$ 4,529,187
Non Cash Investing, Capital, and Financing Activities	
Capital assets financed by capital lease	$ 455,553
Capital Contributions	2,692,960
Loss on Disposal of Capital Assets	(59,100)
Asset Impairment Expense	(906,767)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity:

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

The Port is independent of Cowlitz County, and provides marine terminal and property lease/rental operations to the general public. The RCW authorizes the Port to provide and charge rentals, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic handling facilities for waterborne commerce. The Port may also provide freight and passenger terminals and transfer and storage facilities for other modes of transportation, including air, rail and motor vehicles. The Port may acquire and improve land for sale or lease for industrial or commercial purposes and may create industrial development districts. The powers of eminent domain and ad valorem taxation upon the real and personal property within the district are also within the scope of port districts.

The Port is governed by a three member Board of Commissioners (the Commission) elected by Port district voters. As policy makers, they delegate certain administrative authority to the Chief Executive Officer to conduct operations of the Port. Management is held accountable to the Commission. The Commission and appointed management possess the ability to significantly influence operations, including authority to review and approve budgets, sign contracts as the contracting authority, exercise control over facilities and properties and determine the outcome or disposition of matters affecting the Port’s customers. The Commission possesses final decision-making authority and is held primarily accountable for decisions.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the district’s reporting entity because of the significance of its operations or financial relationship with the district.

The Industrial Development Corporation of the Port of Longview, a public corporation created in 1981 is authorized to facilitate the issuance of tax-exempt nonrecourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they were issued. The Port’s Board of Commissioners governs the Industrial Development Corporation. The Industrial Development Corporation’s account balances and transactions are included as a blended component unit within the Port’s financial statements.

B. Basis of Accounting and Presentation:

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

Funds are accounted for on a cost of services or 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.

The Port distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for marine terminals and property leases. Operating expenses for the Port include the cost of labor, administrative expenses and depreciation on capital assets used for the benefit of customers. All revenues and expenses not related to providing services to customers are reported as non-operating revenues and expenses. Ad valorem tax levy revenues, interest income, grant reimbursements and other revenues generated from non-operating sources are classified as non-operating revenue.

C. Use of Estimates:

The preparation of the Port's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities and Net Position:

1. <u>Cash and Cash Equivalents</u>
   It is the Port's policy to invest all temporary cash surpluses. At December 31, 2016, the Cowlitz County Treasurer was holding $17,182,473 in cash and short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

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

2. Investments – See Note 2.

3. Receivables
   Taxes receivable consist of property taxes and related interest and penalties (see Note 3).

   Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

   Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. The allowance for doubtful accounts was $0 at December 31, 2016.

4. Amounts Due From Other Governmental Units
   These accounts include amounts due to or from other governments for grants and entitlements. At December 31, 2016, there were no amounts due from other governmental units.

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

6. Restricted Assets and Liabilities
   In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses including construction, debt service, and other special reserve requirements. Specific debt service reserve requirements are described in Note 12.

   Funds restricted as to use at December 31, 2016 are:

Current Restricted Assets	
Revenue Debt Service Bond Fund	$172,238
Industrial Development Corporation Money Market Fund	16,266
Noncurrent Restricted Assets	
Bond Reserve Fund	1,163,537
Total Restricted Assets	**$1,352,041**

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

   The Industrial Development Corporation funds are separate from the Port, but are presented as a blended component of the Port.

7. Compensated Absences
   In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* the Port accrues a liability for compensated absences.

   Compensated absences are those for which employees will be paid, such as vacation and sick leave. The Port accrues and records unpaid leave for compensated absences as an expense and a liability when incurred.

   Sick leave is earned at the rate of 8 hours per month of continuous employment, without limit. Upon termination of employment (discharge, death, resignation or retirement), an employee (or in the case of death, the employee's beneficiary) shall be paid for all accrued leave up to 960 hours of sick leave. Accrued sick leave amounts to $419,476 at December 31, 2016.

   Vacation is earned in amounts varying from 10 days during the first 5 years, to 25 days after 20 years, and 30 days after 40 years of employment. Vacation must be taken within the anniversary year following its accrual. Vacation pay is payable upon termination of employment. In addition, two floating holidays are accrued per year after the first year of employment. Accrued vacation payable amounts to $122,171 at December 31, 2016.

8. Pensions
   For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

11. Capital Assets and Depreciation - See Note 4.

12. Long-Term Debt - See Note 12.

13. Deferred Outflows/Inflows of Resources
    A deferred outflow of resources is not an asset and is defined as a consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is not a liability and is defined as an acquisition of net position that is applicable to a future reporting period.

E. Recent Accounting Pronouncements:

The Port implemented the following GASB Pronouncements that were applicable, for the fiscal year ended December 31, 2016:

- GASB Statement No. 72, *Fair Value Measurement and Application.* This statement requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement became effective for financial statements with fiscal years beginning after June 15, 2015. The adoption of this statement did not have a material effect on the Port's financial statements, and additional required disclosures have been made in Note 2 to the financial statements.

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* addresses three separate subjects, two of which are effective for fiscal years beginning after June 15, 2015. It requires assets accumulated for pension purposes to be reported as assets of the employer. It also amends certain provisions of Statement No. 67 and Statement No. 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68 are effective for financial statements with fiscal years beginning after June 15, 2016. The adoption of this statement did not have a material effect on the Port's financial statements.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles. This statement became effective for financial statements with fiscal years beginning after June 15, 2015. The adoption of this statement did not have a material effect on the Port's financial statements.

- GASB Statement No. 77, *Tax Abatement Disclosures* establishes financial reporting standards for tax abatement agreements entered into by state and local governments. This statement became effective for financial statements with fiscal years beginning after December 15, 2015. The adoption of this statement did not have a material effect on the Port's financial statements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* establishes accounting and financial reporting standards for defined benefit pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria. This statement became effective for financial statements with fiscal years beginning after December 15, 2015. The adoption of this statement did not have a material effect on the Port's financial statements, and additional required disclosures have been made in Note 8 to the financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this statement became effective for financial statements with fiscal years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for fiscal years beginning after December 15, 2015. The adoption of this statement did not have a material effect on the Port's financial statements

The Government Accounting Standards Board also issued five new statements, which will be effective in subsequent years:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* is effective for fiscal years beginning after June 15, 2016. This standard expands the disclosure requirements for certain postemployment benefit plans.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* is effective for fiscal years beginning after June 15, 2017. This statement establishes standards for governmental employer recognition, measurement, and presentation of information about postemployment benefits other than pensions (OPEB).

- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*, is effective for reporting periods beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, is effective for periods beginning after June 15, 2018. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73,* is effective for financial statements with fiscal years beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, is effective for periods beginning after December 15, 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs).

NOTE 2 – DEPOSITS AND INVESTMENTS

The Cowlitz County Treasurer is empowered to act as fiduciary for the Port and other taxing districts within the County. Duties include the deposit and prudent investment of public funds as legally prescribed by the laws of the State of Washington. Both the Cowlitz County Treasurer and the Washington State Local Government Investment Pool have formal investment policies which apply to the Port's deposits and investments.

Deposits

The Port's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The PDPC is a statutory authority under

Chapter 39.58 RCW. Currently, all public depositories with the state fully collateralize uninsured public deposits at 100 percent. The Port has not experienced any losses in its deposit accounts.

Investments

Investments are stated at fair value, based on quoted market prices in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in the fair-value of investment is recognized as an increase or decrease to the investment assets and investment income.

Interest income on investments is recognized in non-operating revenue as earned. Changes in fair value of investments are recognized on the Statement of Revenues, Expenses, and Changes in Net Position.

As required by state law, all deposits and investments of the Port's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW. Qualified bank depositories are those specified by the Washington Public Deposit Protection Commission.

Risks

Interest Rate Risk: Interest rate risk is the risk that changes in interest will adversely affect the fair market value of an investment. It is the policy of the Port to invest in a manner which will provide the market rate of return with maximum security while meeting the daily cash flow demands. Through its investment policy the Port manages its exposure to fair market value losses arising from increasing interest rates by establishing maturity limits for individual investments and maturity limits for its investment portfolio as a whole.

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Washington State Local Investment Pool is an unrated 2a-7 like pool, as defined by the Government Accounting Standards Board.

Custodial Credit Risk: Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities that are in the possession of the outside party. To minimize this risk, the Port's investment policy requires that all security transactions, except the Washington State Local Government Investment Pool, are settled on a "delivery verses payment" basis. This means that payment is made simultaneously with the receipt of the security. These securities will be held by a third-party custodian designated by the Cowlitz County Treasurer. Of the Port's total position of $18,315,782 in investments, $0 is exposed to custodial credit risk.

Investments Measured at Amortized Cost

As of December 31, 2016, the Port had the following investments and are shown on the financial statements as cash and cash equivalents in accordance with its policy.

	Amortized Costs			
Investment Type	**Maturities**	**Port's own Investment**	**Investments held by Port as an agent for others**	**Total**
WA State Local Government Investment Pool	Less than one year	$16,637,961		$16,637,961
Total		**$16,637,961**		**$16,637,961**

Washington State Local Government Investment Pool (LGIP) operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 and is similar to a money market fund recognized by the Securities and Exchange Commission. The LGIP manages a portfolio of securities that meet the maturity, quality, diversification, and liquidity calculation requirements set forth by the Governmental Accounting Standards Board (GASB) for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities to minimize both market and credit risk.

The LGIP transacts with its participants at a stable net asset value per share of $1.00, the same method used for reporting. Participants may contribute or withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer of any contribution or withdrawal over $1 million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for $1 million dollars or less can be requested at any time prior to 10 a.m., at the sole discretion of Office of the State Treasurer. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Investments Measured at Fair Value

The Port measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

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

	Fair Value Measurement Using			
Investment Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Federal Home Loan Bank*		$1,677,821		$1,677,821
Total		**$1,677,821**		**$1,677,821**

*The difference between the fair value and the amortized cost of the Federal Home Loan Bank investment as of 12/31/2016 was insignificant, therefore no gain or loss on change in fair value was recorded.

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

	Maturities (in Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 – 3**	**More than 3**	**% of Total Portfolio**
Federal Home Loan Bank	$1,677,821		$1,677,821		9.16%
WA State Local Government Investment Pool*	$16,637,961	$16,637,961			90.84%
Total	**$18,315,782**	**$16,637,961**	**$1,677,821**		**100%**

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

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

	Moody's Equivalent Credit Ratings					
Investment Type	**Fair Value**	**Aaa**	**Aa1**	**Aa2**	**Aa3**	**No Rating**
Federal Home Loan Bank	$1,677,821	$1,677,821				
WA State Local Government Investment Pool*	$16,637,961					$16,637,961
Total	**$18,315,782**	**$1,677,821**				**$16,637,961**

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

NOTE 3 - PROPERTY TAXES

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

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

Property taxes are recorded as a receivable and classified as non-operating revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. The

Washington State Constitution and Washington State law, RCW 84.55.010 limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2016 was $0.222956 per $1,000 on an assessed valuation of $7,390,247,553 or a total regular levy of $1,647,700. The Port also levied an additional $0.19474 per $1,000 for the repayment of general obligation bonds for a total additional levy of $1,439,177. For 2016, the Port collected 97.7% of ad valorem taxes levied.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost, or estimated historical cost, where historical cost is not known, or at estimated acquisition value for donated assets.

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 account.

Interest on funds used during construction, less interest earned on related interest-bearing investments if the asset is financed with externally restricted tax-exempt proceeds, is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs. The port had no capitalized interest in 2016.

The Port's policy is to capitalize all asset additions greater than $5,000 with an estimated useful life in excess of one year. Depreciation expense is charged to operations to allocate the cost of fixed assets over their estimated useful lives using the straight-line method. Berths, dolphins and floats are assigned lives of 30 to 50 years; buildings and improvements 10 to 50 years; and machinery and equipment 5 to 30 years.

In accordance with generally accepted accounting principles for regulated businesses, the Port has a deferred intangible asset of $30,521 as of December 31, 2016. The initial cost of $29,072 in 2005 and $20,427 in 2015 were for easements for two disposal sites for the Columbia River Channel Improvement Project. The costs are amortized on the straight line method over 20 years.

In accordance with GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets*, the Port identified several assets that are no longer in service and have been written off in 2016. The Krupp Container Crane and the Bulk Handling Facility Equipment at Berth 1 which are outdated and no longer in use had a total impairment loss of $906,767.

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

	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital Assets, not being depreciated:				
Land and Land Rights	$33,912,342	$2,604,800		$36,517,142
Construction in process	2,965,200	2,762,956	4,175,442	1,552,714
Total Capital Assets, not being depreciated	**$36,877,542**	**$5,367,756**	**$4,175,442**	**$38,069,856**
Capital Assets, being depreciated:				
Berths, Dolphins, Floats	$28,767,000	$3,835,019		$32,602,019
Buildings and Structures	37,289,615	111,090	2,005,430	35,395,275
Other Improvements	28,387,342	383,728		28,771,070
Machinery and Equipment	32,743,060	922,823	4,885,418	28,780,465
Intangible Asset	32,996		2,475	30,521
Total Capital Assets, being depreciated	**$127,220,013**	**$5,252,660**	**$6,893,323**	**$125,579,350**
Less Accumulated Depreciation:				
Berths, Dolphins, Floats	$11,290,815	$708,597		$11,999,412
Buildings and Structures	21,508,219	791,030	1,746,541	20,552,708
Other Improvements	11,160,066	780,955		11,941,021
Machinery and Equipment	16,435,521	1,158,237	4,178,439	13,415,319
Total Accumulated Depreciation	**$60,394,621**	**$3,438,819**	**$5,924,980**	**$57,908,460**
Total Net Capital Assets	**$103,702,934**	**$7,181,597**	**$5,143,785**	**$105,740,746**

NOTE 5 – COMMITMENTS

Construction Commitments:

The Port has active construction projects as of December 31, 2016. At year-end the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
2016 Dredging	$417,364	$20,320
Well #4	61,285	2,975
Total	**$478,649**	**$23,295**

Purchase Commitment:

On June 25, 2010, the Port entered into a lease agreement with Skyline Steel, LLC (Skyline) for 20 acres of Port property at an initial lease rate of $850 per acre per month. Simultaneously, the Port entered into a ground lease agreement with IDC Longview, LLC., (IDC) for the lease of an additional 15 acres under the same lease rate as Skyline. The ground lease required IDC to construct a facility for Skyline to accommodate its general office purposes, and the receiving, storing, shipping, manufacturing, fabricating, coating, warehousing and distribution of steel products. The facility was constructed at a cost in excess of $11 million.

Under the terms of these leases, Skyline has the right to purchase the building from IDC in 2023 and must notify the Port of its intention to exercise this option by February 28, 2022. If Skyline chooses not to exercise its option, the Port is required to purchase the facility from IDC by March 31, 2023 at the agreed upon price of $9 million. Port management has determined that it is reasonably possible that the Port will be required to purchase the facility and at the end of 2016, had accumulated $3.3 million toward the eventual purchase. The Port also intends to continue setting aside additional funding in its annual budget between now and the purchase date.

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 7 - PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 2,812,461
Pension assets	$ 0
Deferred outflows of resources	$ 478,357
Deferred inflows of resources	$ 84,851
Pension expense/expenditures	$ 311,846

State Sponsored Pension Plans

Substantially all Port of Longview's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98540-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions – PERS Plan 1

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions – PERS Plan 2/3

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

The Port of Longview's actual PERS plan contributions were $141,953 to PERS Plan 1 and $162,669 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the Port of Longview's proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port of Longview's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$1,701,634	$1,411,091	$1,161,061
PERS 2/3	$2,580,173	$1,401,370	$ (729,494)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Port of Longview reported a total pension liability of $2,812,461 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$1,411,091
PERS 2/3	$1,401,370

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.025462%	0.026275%	0.000813%
PERS 2/3	0.029056%	0.027833%	(0.001223%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the Port of Longview recognized pension expense as follows:

	Pension Expense
PERS 1	$119,798
PERS 2/3	$192,048
TOTAL	**$311,846**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the Port of Longview reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments	$ 35,529	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$ 71,852	
TOTAL	**$107,381**	

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 74,622	$46,262
Net difference between projected and actual investment earnings on pension plan investments	$171,487	
Changes of assumptions	$ 14,484	
Changes in proportion and differences between contributions and proportionate share of contributions	$ 21,714	$38,589
Contributions subsequent to the measurement date	$ 88,668	
TOTAL	**$370,975**	**$84,851**

Total All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 74,622	$46,262
Net difference between projected and actual investment earnings on pension plan investments	$207,016	
Changes of assumptions	$ 14,484	
Changes in proportion and differences between contributions and proportionate share of contributions	$ 21,714	$38,589
Contributions subsequent to the measurement date	$160,520	
TOTAL	**$478,356**	**$84,851**

Deferred outflows of resources related to pensions resulting from the Port of Longview's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	$ (8,748)
2018	$ (8,748)
2019	$ 32,630
2020	$ 20,395
2021	
Thereafter	

Year ended December 31:	PERS 2/3
2017	$ (2,044)
2018	$ (2,044)
2019	$122,682
2020	$ 78,863
2021	
Thereafter	

NOTE 8 – PENSION PLANS – NONGOVERNMENTAL PLANS (PENSIONS PROVIDED THROUGH CERTAIN MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLANS)

Some Port employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan that, (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). As of December 31, 2016, the Port contributed to the following nongovernmental pension plans:

Name of Pension	Entity	Cost-Sharing	Financial Report	Benefit Type	# of Covered Employees	Benefit Terms	Contribution Requirements	Balance of Payables	Expiration Date	Total Contribution 2016
47P	Oregon-Washington Carpenters-Employers Trust	Yes	Yes	Pension	2- Carpenters 8- Pilebucks	Collective-bargaining Agreement	$5.06 multiplied by hours worked	$9,689.90	5/31/2017	$94,921.64
47AP	Oregon-Washington Carpenters-Employers Trust	Yes	Yes	Non-Accruing Pension	2- Carpenters 8- Pilebucks	Collective-bargaining Agreement	$1.65 multiplied by hours worked	$3,159.75	5/31/2017	$30,952.71
47PNA	Oregon-Washington Carpenters-Employers Trust	Yes	Yes	Non-Accruing Pension	2- Carpenters 8- Pilebucks	Collective-bargaining Agreement	$.40 multiplied by hours worked	$766.00	5/31/2017	$7,503.69
Dist 9 ER	Electrical Trust Funds	Yes	No	Pension	2- Electricians	Collective-bargaining Agreement	$3.37 or $3.64 (Foreman) multiplied by hours worked	$2,029.68	12/31/2017	$20,228.89
Edison Pension	Electrical Trust Funds	Yes	No	Pension	2- Electricians	Collective-bargaining Agreement	$7.00 or $7.25 (Foreman) multiplied by hours worked	$4,122.50	12/31/2017	$41,425.50
NEBF	Electrical Trust Funds	Yes	Yes	Pension	2- Electricians	Collective-bargaining Agreement	3.00 % multiplied by gross earnings	$855.90	12/31/2017	$8,232.04
Pension	AGC-IUOE Local 701 Trust Funds	Yes	Yes	Pension	3- Operating Engineers	Collective-bargaining Agreement	$4.40 multiplied by hours worked	$2,842.40	12/31/2017	$27,108.40
Pension	Northwest Laborers-Employers Pension Trust	Yes	Yes	Pension	11- Laborers	Collective-bargaining Agreement	$3.90 multiplied by hours worked	$8,332.35	5/31/2017	$81,810.30
39P	Oregon & SW Painters Pension Plan	Yes	Yes	Pension	2- Painters	Collective-bargaining Agreement	$2.91 multiplied by hours worked	$977.76	3/31/2017	$10,299.89
National Pension Fund (PPNPF)	Plumbers & Pipefitters National Pension Fund	Yes	No	Pension	2- Plumbers	Collective-bargaining Agreement	$2.86 multiplied by hours worked	$1,075.36	12/31/2017	$8,754.20
UA Supplemental Pension	Washington State Plumbing & Pipefitting Trust Fund	Yes	Yes	Pension	2- Plumbers	Collective-bargaining Agreement	$1.00 multiplied by hours worked	$376.00	12/31/2017	$3,214.01
WA ST Pension	Washington State Plumbing & Pipefitting Industy Trust Fund	Yes	Yes	Pension	2- Plumbers	Collective-bargaining Agreement	$6.19 multiplied by hours worked	$2,327.45	12/31/2017	$18,306.99
NASI Pension Fund	National Automatic Sprinkler Industry	Yes	Yes	Pension	1- Sprinker Fitter	Collective-bargaining Agreement	$6.05 multiplied by hours worked	$919.60	12/31/2017	$10,991.18
Sprinkler Industry Supplemental Pension	National Automatic Sprinkler Industry	Yes	Yes	Pension	1- Sprinker Fitter	Collective-bargaining Agreement	$9.00 multiplied by hours worked	$1,368.00	12/31/2017	$16,375.50

The balance of payables were earned in December 2016 and due in January 2017. Required contributions to the pension plans are related to past services performed per union contracts.

NOTE 9 – POST EMPLOYMENT BENEFITS

Plan Description:

In addition to the pension benefits described in Note 7, the Port participates in a cost sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Health Care Authority (HCA). Per RCW 41.05.065, the Public Employees Benefits board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits offered by PEBB include medical, dental, life and long-term disability.

The relationship between the PEBB OPEB plan and its member 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 HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs. Even though the Port has no legally binding commitment to continue retiree health care should it choose to leave the plan for a different health care provider system, the Port must calculate an OPEB liability to comply with the provisions of GASB Statement No. 45.

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://leg.wa.gov/OSA.

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. In calendar year 2015, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar year 2016.

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. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on overage, 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. In calendar year 2015, the average weighted implicit subsidy was valued at $308 per member per month, and in calendar year 2016, the average weighted implicit subsidy is projected to be $304 per member per month.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the State's budget process. The benefits are funded on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation:

The Port's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No.45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. 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 obligation. The net OPEB obligation of $892,978 is included as a noncurrent liability in the Statement of Net Position.

	Fiscal Year Ending 12/31/2016	Fiscal Year Ending 12/31/2015	Fiscal Year Ending 12/31/2014
Annual Required Contribution (ARC)	$216,279	$193,715	$124,065
Net OPEB Obligation Interest (NOO)	28,256	21,693	17,034
Net OPEB Obligation Amortization	(40,851)	(31,362)	(24,627)
Annual OPEB Cost	$203,684	$184,046	$116,472
Contributions made	(17,107)	(11,748)	(8,212)
Increase in Net OPEB Obligation	186,576	172,298	108,260
Net OBEB Obligation – beginning of year	706,401	534,103	425,843
Net OPEB Obligation – end of year	$892,978	$706,401	$534,103

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016, 2015 and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$203,684	8.40%	$892,978
2015	184,046	6.38%	706,401
2014	116,472	7.05%	534,103

Funded Status and Funding Progress:

Under the GASB provisions, in order for the Port to avoid the recording of an OPEB liability, it would have to fund the OPEB obligation through the creation of an irrevocable trust. Under the terms of a trust of this nature, the Port would lose control of any money it placed into the trust. Even if the Port left the PEBB program for another health care system, the Port would not be able to get the money out of the trust. In order to avoid this situation, the Port's funding policy is considered pay-as-you-go. Because of this funding policy, the plan is considered unfunded under the GASB provisions.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions used by PEBB were as follows:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years for each new layer of NOO
Asset valuation method	N/A – no assets
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.75%
Health care inflation rate	8.0% initial rate, 4.9% ultimate rate in 2094
Inflation rate	3.0%

The Port used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.4 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2015, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2015. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unite Credit. The AAL and 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.

<u>NOTE 10 - RISK MANAGEMENT</u>

The Port is exposed to various risks of loss related to torts; damage to, theft of and destruction of assets or cargo; natural disasters; and employee injuries. To limit exposure, the Port purchases property, liability and related insurance coverage annually through a commercial insurance broker(s) which provide coverage against most normal hazards. In comparison to prior years, there were no significant changes in the type and coverage of insurance policies purchased by the Port in 2016. Settlement claims have not exceeded commercial insurance coverage in any of the past three years.

The Port participates in the State of Washington Labor and Industries workers' compensation insurance program. However, management has elected to become self-insured through the Washington State Employment Security Department on a reimbursement basis. Unemployment claims are processed by the Washington State Employment Security Department. No reserve for self-insurance has been established as the potential liability is not considered to be material to the financial statements.

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

NOTE 11- LEASES

Property Leases:

The Port, as a lessor, enters into operating leases with tenants for the use of port owned land and facilities. The following is a schedule of future minimum rental income under non-cancelable leases having an initial term in excess of one year.

Year	Minimum Future Rental Income
2017	$1,227,465
2018	1,167,069
2019	1,079,478
2020	987,681
2021	987,681
2022-2026	2,337,160
2027-2031	1,920,660
2032-2035	1,920,660
2036-2039	1,312,451
Total	**$12,940,303**

Operating Leases:

The Port leases a locomotive under a noncancelable operating lease. Total cost for such lease was $7,854 for the year ended December 31, 2016. The future minimum lease payments for this lease is as follows:

Year	Minimum Future Rental Income
2017	$45,624
2018	45,624
2019	45,624
2020	45,624
2021	38,020
Total	**$220,516**

Capital Leases:

The Port has entered into five separate lease agreements for financing machinery and equipment. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	
Liehber Mobile Harbor Crane	$4,693,744
2015 Case 580SN Backhoe	113,906
2015 80 Foot Manlift	168,201
Volvo L180H Wheel Loader	439,489
Volvo L180H Wheel Loader	455,553
Less Accumulated Depreciation	(490,087)
Total	**$5,380,806**

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2016 were as follows:

Year Ending December 31	
2017	$931,076
2018	889,693
2019	395,484
2020	128,871
2021	56,420
Total Minimum Lease Payments	**$2,401,544**
Less: Interest	146,131
Present Value of Minimum Lease Payments	**$2,255,413**

NOTE 12- LONG TERM DEBT

Long-Term Debt:

The Port issues limited tax general obligation and/or general revenue bonds to finance certain capital projects, acquisition of land, construction of facilities or purchase of capital assets. Bonded indebtedness has also been entered into in prior years to advance refund general obligation and revenue bonds. Unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium, discount or deferred amount on refunding. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs, discounts, and deferred amounts on refunding.

A. Limited Tax General Obligation Debt:

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

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

The limited tax general obligation bonds currently outstanding are as follows:

Limited Tax General Obligation Bonds				
	Orig. Issue	**Interest Rate**	**Maturity Date**	**Balance 12/31/16**
2008 Refunding Series A	$6,175,000	4.0%	12/01/2022	$4,455,000
2009 Series A	$2,435,000	1.0-5.00%	12/01/2019	775,000
2009 Series B	$3,780,000	4.0-4.35%	12/01/2027	3,780,000
2009 Series C	$1,215,000	5.00%	12/01/2029	1,215,000
Total LTGO Bonds before Current Portion				$10,225,000
Current Portion				1,070,000
Premium				111,467
Discount				(49,399)
Total Long-Term LTGO Bonds, net				$9,217,068

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

Year Ending December 31	Principal	Interest
2017	1,070,000	434,598
2018	1,115,000	389,758
2019	830,000	342,495
2020	1,195,000	308,495
2021	1,240,000	260,695
2022-2026	3,150,000	732,060
2027-2031	1,625,000	162,585
Total	**$10,225,000**	**$2,630,685**

B. General Revenue Bonds:

General revenue bonds are secured by a pledge of the Port's gross operating revenues and contain a coverage requirement related to maintaining adequate net revenues to support debt service. There are a number of limitations, restrictions, sinking fund and reserve requirements in the various bond indentures. At December 31, 2016, the Port had $1,163,537 in revenue bond reserves (included in restricted investments), and was in compliance with all significant bond indentures.

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

Revenue Bonds				
Obligation	**Orig. Issue**	**Interest Rate**	**Maturity Date**	**Balance 12/31/16**
2011 Series A	$ 3,500,000	2.50-7.37%	12/01/2027	$ 2,665,000
2013 Series A,	$ 7,000,000	2.00-3.40%	12/01/2018	2,960,000
2013 Series B, Refunding	$ 1,875,000	2.50%	12/01/2018	1,875,000
Total Revenue Bonds before Current Portion				$7,500,000
Current Portion				1,730,000
Premium				5,272
Total Long-Term Revenue Bonds, net				$5,775,272

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

Year Ending December 31	Principal	Interest
2017	1,730,000	344,477
2018	1,790,000	282,189
2019	1,860,000	215,619
2020	205,000	152,919
2021	220,000	138,569
2022-2026	1,360,000	435,281
2027-2031	335,000	24,706
Total	**$7,500,000**	**$1,593,759**

C. Other Long-Term Obligations:

Other long-term obligation debt for years 2016 through 2030, includes three loans with the State of Washington Community Economic Revitalization Board (CERB) for a portion of costs directly related to construction of a warehouse, improvements to rail lines in the East Park industrial property, and Berth 9; a loan with Cowlitz County for the renovation of the White House; a loan with Washington Department of Transportation for rail improvements and financing of cargo handling equipment.

Other Long-Term Obligations				
Obligation	**Orig. Issue**	**Interest Rate**	**Maturity Date**	**Balance 12/31/16**
CERB Loan 006	$ 766,127	4.400%	01/01/2019	$ 216,585
CERB Loan 157	$1,000,000	1.000%	01/01/2024	$ 582,015
CERB Loan 208	$1,000,000	4.000%	01/31/2030	$1,000,000
County Loan	$ 262,500	3.000%	06/30/2024	$ 160,843
WSDOT Rail Loan	$ 465,605	--	07/01/2023	$ 325,923
Volvo Loader	$ 742,142	2.938%	03/20/2017	$ 40,375

The annual debt service payments are as follows:

Year Ending December 31	**Principal**	**Interest**
2017	$307,661	$ 60,440
2018	271,497	53,174
2019	275,865	45,948
2020	201,749	38,569
2021	202,998	34,462
2022-2026	780,258	110,649
2027-2030	285,714	28,571
Total	**$2,325,742**	**$371,813**

Changes in Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
L.T.G.O. Bonds Payable:					
L.T.G.O. Bonds	$11,250,000		$1,025,000	$10,225,000	$1,070,000
Premiums	127,351		15,884	111,467	
Discounts	(54,384)		(4,985)	(49,399)	
Total L.T.G.O. Bonds Payable	**11,322,967**		**1,035,899**	**10,287,068**	**1,070,000**
Revenue Bonds Payable:					
Revenue Bonds	9,180,000		1,680,000	7,500,000	1,730,000
Premiums	7,190		1,918	5,272	
Total Revenue Bonds Payable	**9,187,190**		**1,681,918**	**7,505,272**	**1,730,000**
Notes Payable	2,676,095		350,353	2,325,742	307,661
Capital Leases	2,559,488	455,553	759,627	2,255,414	846,613
Employee Leave Benefits	647,376		105,729	541,647	
Other Post Employment Benefits	706,401	186,576		892,977	
Net Pension Liability	2,370,086	442,375		2,812,461	
Total Long-Term Liabilities	**$29,469,603**	**$1,084,504**	**$3,933,526**	**$26,620,581**	**$3,954,274**

NOTE 13 – CONTINGENCIES & LITIGATION

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

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

NOTE 14 – POLLUTION REMEDIATION OBLIGATION

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

The Port has identified two sites that require characterization and remediation; however, the extent of contamination has not yet been determined and is the subject of litigation to establish $200 million in insurance coverage. Until the litigation is resolved, Port counsel has advised management to delay implementation of GASB No. 49. The Port is in the process of analyzing options to successfully remediate the pollution and expects to have estimates of the costs associated with the options in 2017 at which time the Port will record a liability if the costs of remediation exceeds its insurance coverage.

NOTE 15 - COLUMBIA RIVER CHANNEL IMPROVEMENT PROJECT

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

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

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

The State of Washington appropriated $27.7 million for the Washington sponsor’s share of project costs. The Oregon-Washington Ports Agreement allocates costs of the Channel Improvement Project. All costs incurred, with the exception for port-owned beneficial use sites, will be shared 50/50 between the states. The Washington Ports share of the costs is shared equally between the three Washington Ports. At the completion of the Columbia River Channel Improvement Project, a final accounting of the project will occur to ensure that the non-federal sponsors have equally contributed to the project, met their obligations to U.S. Army Corps of Engineers, and equalization will occur between the States of Washington and Oregon. The Port has not recorded an accrual for any equalization liability in the financial statements because any potential amounts owing to the project by the Port are expected to be immaterial.

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

NOTE 16- MAJOR CUSTOMERS

Operating revenues for the year ended December 31, 2016 included $30,550,365 from six major customers in 2016. Receivables outstanding from those corporations totaled $4,527,392.

NOTE 17 - INDUSTRIAL DEVELOPMENT CORPORATION OF THE PORT OF LONGVIEW

The Industrial Development Corporation of the Port of Longview, 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 issued.

There were no outstanding bonds during the year ended December 31, 2016. The Industrial Development Corporation did not authorize issuance of any bonds during the year ended December 31, 2016.

Funds in the Industrial Corporation at December 31, 2016 totaled $16,266. They are included on the Statement of Net Position as Restricted Assets.

NOTE 18 – JOINT VENTURE

Southwest Washington Regional Airport Board:

The cities of Longview and Kelso along with Cowlitz County and the Port of Longview entered into an agreement in February, 2012 to establish an Airport Board (Board) to jointly fund and manage the operations, maintenance, improvement and regulation of the Southwest Washington Regional Airport. Prior to the agreement the airport had been owned and operated by the City of Kelso. This agreement took effect in January, 2013 with noncapital assets and liabilities transferred to the Board which consists of a member from each entity and an at large member to be appointed by majority vote of the other members.

The Board formulates its preliminary annual budget and submits it to each participating jurisdiction prior to August 1 of each year. Estimated expenses for maintenance and operations, repairs and replacements to existing facilities, capital projects, and debt service are netted against estimated airport operating revenues to determine the amount of annual subsidy required by the participating jurisdictions. Each jurisdiction is responsible for 25% of the estimated subsidy. Payments made to the airport by the Port in 2016 were $76,000.

This agreement may be terminated at any time upon the approval by a super-majority of the entities. All assets and liabilities acquired by the Board will remain the property of the airport and used for airport maintenance and operations consistent with FAA’s Revenue Use Policy. In the event the airport ceases to operate, any assets or liabilities remaining from such property acquired after the commencement of this agreement, and after the full satisfaction of all federal obligations, grant repayments to the FAA, and satisfaction of FAA’s Revenue Use Policy, shall be distributed to the parties in the same proportion as the financial contribution of the parties for its acquisition.

On February 9, 2016, the Port’s Commissioners voted to withdraw from the Southwest Washington Regional Airport Interlocal Agreement by giving nine months written notice to the other parties to the Interlocal Agreement. The Port’s participation in the agreement entered into in February 2012 expired at the end of 2016.

In February 2017, the cities of Longview and Kelso along with Cowlitz County and the Port of Longview entered into an amended Interlocal Cooperation Agreement (ILA) that is effective for a two year term, commencing on January 1, 2017 and ending December 31, 2018. At the end of 2018, the agreement shall automatically terminate unless the parties unanimously agree by written amendment to renew the agreement for an additional term or terms. Under the amended ILA, the Board consists of one representative from each party and the Port’s annual contribution is set at $65,000. The remaining terms are substantially the same as in the previous ILA.

Schedule of Proportionate Share of Net Pension Liability
As of June 30, 2016
Last 10 Fiscal Years*

PERS 1	2016	2015
Employer's proportion of the net pension liability (asset)	0.026275%	0.025462%
Employer's proportionate share of the net pension liability	$1,411,091	$1,331,899
Employer's covered employee payroll	$2,837,010	$2,729,234
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	49.74%	48.79%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%

PERS 2/3	2016	2015
Employer's proportion of the net pension liability (asset)	0.027833%	0.029056%
Employer's proportionate share of the net pension liability	$1,401,370	$1,038,187
Employer's covered employee payroll	$2,600,075	$2,577,680
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	53.90%	40.28%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%

*These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Schedule of Employer Contributions
As of December 31, 2016
Last 10 Fiscal Years*

PERS 1	2016	2015
Statutorily or contractually required contributions	$141,953	$139,444
Contributions in relation to the statutorily or contractually required contributions	(141,953)	(139,444)
Contribution deficiency (excess)	$0	$0
Covered employer payroll	$2,769,304	$2,936,555
Contributions as a percentage of covered employee payroll	5.13%	4.75%

PERS 2/3	2016	2015
Statutorily or contractually required contributions	$162,669	$153,420
Contributions in relation to the statutorily or contractually required contributions	(162,669)	(153,420)
Contribution deficiency (excess)	$0	$0
Covered employer payroll	$2,611,072	$2,739,187
Contributions as a percentage of covered employee payroll	6.23%	5.60%

*These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Schedule of Employer Contributions
Nongovernmental Pension Plans
Statutorily or Contractually Required Contributions
As of December 31, 2016
Last 10 Fiscal Years*

Entity	Pension Plan	2016
Oregon-Washington Carpenters – Employers Trust Fund	47P	$94,922
Oregon-Washington Carpenters – Employers Trust Fund	47AP Non-accruing	30,953
Oregon-Washington Carpenters – Employers Trust Fund	47PNA Non-accruing	7,504
Electrical Trust Funds	District 9 Pension	20,229
Electrical Trust Funds	Edison Pension	41,426
Electrical Trust Funds	NEBF	8,232
AGC-IUOE Local 701 Trust Funds	AGC-IUOE Pension	27,108
Northwest Laborers-Employers Trust Fund	NW Laborers Pension	81,810
Oregon and SW Painters Pension Plan	39P	10,300
Plumbers & Pipefitters National Pension Fund	National Pension (PPNPF)	8,754
WA State Plumbing & Pipefitting Industry Trust Funds	UA Supplemental Pension	3,214
WA State Plumbing & Pipefitting Industry Trust Funds	WA St Pension	18,307
National Automatic Sprinkler Industry	NASI	10,991
National Automatic Sprinkler Industry	Sprinkler Industry Supplemental	16,376

*These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

PORT OF LONGVIEW

Required Supplementary Information

December 31, 2016

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
12/31/2016	$0	$1,781,709	$1,781,709	0%	$3,110,478	57.28%
12/31/2015	$0	$1,524,070	$1,524,070	0%	$3,118,801	48.87%
12/31/2014	$0	$1,059,101	$1,059,101	0%	$2,670,677	39.66%

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	
Public Records requests	PublicRecords@sao.wa.gov
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