Washington State Auditor's Office

Financial Statements Audit Report

Port of Everett

Snohomish County

Audit Period

January 1, 2013 through December 31, 2013

Report No. 1011972

Issue Date

May 27, 2014

Washington State Auditor
Troy Kelley

Independence • Respect • Integrity

Washington State Auditor
Troy Kelley

May 27, 2014

Board of Commissioners
Port of Everett
Everett, Washington

Report on Financial Statements

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

Table of Contents

Port of Everett
Snohomish County
January 1, 2013 through December 31, 2013

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Port of Everett
Snohomish County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Everett
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated May 2, 2014 . As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the Port implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

May 2, 2014

Independent Auditor's Report on Financial Statements

Port of Everett
Snohomish County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Everett
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Everett, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Matters of Emphasis

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2014 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR

May 2, 2014

Financial Section

Port of Everett
Snohomish County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Port of Everett

Management's Discussion and Analysis

for year ended December 31, 2013

The Port of Everett's (the Port) management discussion and analysis provides an overview of the Port's financial activities for the fiscal year ended December 31, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements and notes to the financial statements, which immediately follow this discussion.

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

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

The Port operates in three primary business areas. The Port provides the local boating community with modern small boat marina facilities. The Marina division accounted for 32% of the Port's total Operating Revenues in 2013. The Port marina facilities consist of two in-water marinas with over 2,300 wet moorage slips. The Port also provides upland storage for approximately 150 vessels. The Marina provides an array of marine services including operations of a fuel dock, wash down facility, vessel haul outs, boat yard facilities, restroom and shower complexes and parking facilities. The Port is also partner in the Port of Everett marine park boat launch with the City of Everett and Snohomish County. This facility is available for public use in launching trailerable boats into Puget Sound.

The largest revenue division of the Port is the Marine Terminals division which in 2013 accounted for 64% of the Port's Operating Revenue. The Port owns four marine terminals which provide inter-modal cargo facilities for a number of steamship lines and shippers. Hewitt Terminal has two piers, a wharf, a 36,000 square foot chill warehouse and 21 acres of upland area. This terminal is dredged to minus 40 feet mean low low water (MLLW). The Port also operates the South Terminal wharf which features a 705-foot wharf, a 22,000 square foot warehouse with rail sidings, 13 acres of lighted upland acres, and is dredged to minus 40 feet MLLW. The South Terminal also has a dolphin berth, with a 900-foot usable length and dredged to minus 40 feet MLLW. The Pacific Terminal is operated by the Port as the Port's container and general cargo yard. Two 40-ton container gantry cranes and one 100-ton Gottwald mobile harbor crane service this terminal. The usable berth length is 640 feet and it is dredged to minus 40 feet MLLW. Mount Baker Terminal is designed to transport oversized aerospace parts to Paine Field via rail. Initially, the aerospace parts arrive in the Port of Everett's shipping terminals on Port Gardner Bay. They are then barged to the satellite facility where they are off-loaded by an electric rail-mounted gantry crane and transported by rail car to Paine Field Airport. All of the terminals are served by railroad tracks that tie into the Burlington Northern Santa Fe mainline railroad operations.

The Port's third Operating division is the Property division which serves as landlord and developer of Port owned commercial and industrial properties. The Port owns a total of about 3,000 acres of land including approximately 900 acres that have been or will be developed. Some of the sites may require cleanup of contaminated soils and often will require new or upgraded primary infrastructure. The Port is moving forward with a number of capital projects which will provide new or upgraded road and utility infrastructure to its land holdings. The improved industrial and commercial sites are either leased or sold to industrial, commercial or retail users who develop site specific facilities. The Port also constructs and owns buildings and leases those buildings to tenants. A wide array of businesses operates within the Port's real property holdings, ranging from light industrial, to retail trade, to restaurants and hospitality businesses. Almost all of the Port's land holdings are adjacent to or near the waterfront surrounding the Port district. The Property division accounted for 4% of the Port's 2013 Operating Revenues.

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

After 100 years of marine industrial use much of the Port's waterfront land and adjacent waterways have been in need of various degrees of environmental clean-up and remediation. Over the past several years, the Port has been aggressively pursuing clean-up remedies for its property holdings. The Port has developed significant expertise in managing these efforts and has been very successful in obtaining grant contributions and other payments to help offset these expenditures. Once remediation has occurred the Port strives to return these properties to the marketplace facilitating expansion of area jobs and taxes.

Financial Highlights

- In 2013, the Port's overall operating revenues increased to $29.8 million, growing by 3% over that recorded in 2012.
- The Port's overall operating costs also increased in 2013, going up $2.3 million, or 8%, over 2012 operating expense levels.
- The Port had an overall net operating loss of $474 thousand in 2013.
- The Port's had a net non-operating loss in 2013 of $1.8 million. This loss included $5.2 million recorded for environmental remediation expense.
- The Port received capital contributions of $1.2 million in 2013.
- The Port's assets total $275.5 million at yearend and exceed its liabilities by $217.3 million (net position) as of December 31, 2013.

Using the Annual Report

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

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

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

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

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

Financial Analysis – Net Position

Net Position

	2013	2012
Current Assets (net of restricted assets)	$33,796,605	$34,122,208
Restricted Assets	436,416	430,806
Capital Assets	241,177,545	242,776,748
Other Noncurrent Assets	112,038	443,110
Total Assets	**275,522,604**	**277,772,872**
Total Deferred Outflows of Resources	**333,990**	**0**
Current Liabilities	9,979,935	6,611,741
Noncurrent Liabilities	48,601,101	52,678,295
Total Liabilities	**58,581,036**	**59,290,036**
Invested in Capital Assets, net of related debt	202,487,750	200,903,963
Restricted for Capital Projects	436,416	430,806
Unrestricted	14,351,392	17,148,067
Total Net Position	**$217,275,558**	**$218,482,836**

Assets

The Port maintained strong cash/investment reserves during 2013 with a total of $27.4 million in Cash and Investment. Of this total $25.7 million was invested in the Washington State Treasurers Local Government Investment Pool.

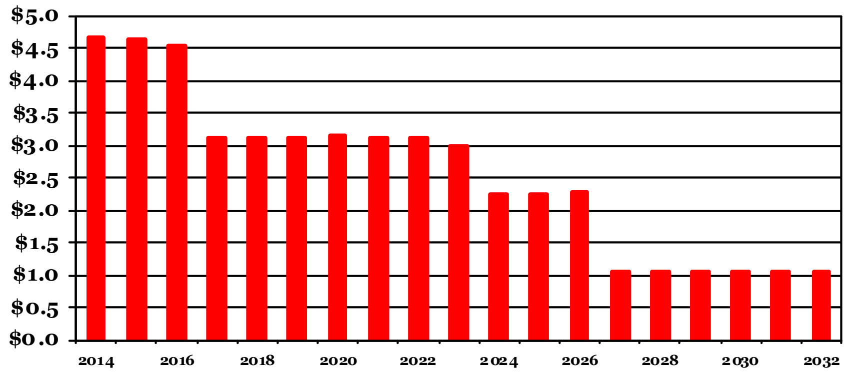
The Port also had Accounts Receivable of $4.4 million which was an increase of 7% from that recorded at 12/31/2012. Other current assets including restricted investments, taxes receivable, amounts due from other governments, inventory and prepaid items totaled $2.4 million.

Although the Port's Total Net Position declined slightly in 2013, during the year, the Port increased its total land holdings by $833 thousand and its depreciable capital assets by $32.4 million (see note 4). Construction in Progress at year end totaled $8.2 million. The Port recorded capital asset disposals and sales of $214 thousand.

Liabilities

Liabilities decreased by $709 thousand from fiscal year 2012, with total liabilities at yearend of $58.6 million. In 2013, the Port issued Limited Tax General Obligation bonds of $19.5 million, proceeds of which were used to advance refund $6.125 million of the 2004 LTGO bond issue and to fully refund $15.0 million outstanding on a subordinate lien loan agreement with Union Bank. Total Notes and Bond payables outstanding at yearend were $39.0 million which is $2.9 million less than that outstanding at 12/31/2012. Other long term liabilities at yearend include $14.1 million estimated for addressing legacy environmental costs at various port locations. See Note 9 for additional information.

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



In 2013, the Port maintained a strong revenue bond Debt Service coverage ratio of 5.34 times debt service. Port bond contracts require the Port to maintain a minimum debt service coverage ratio of 1.35 time debt service.

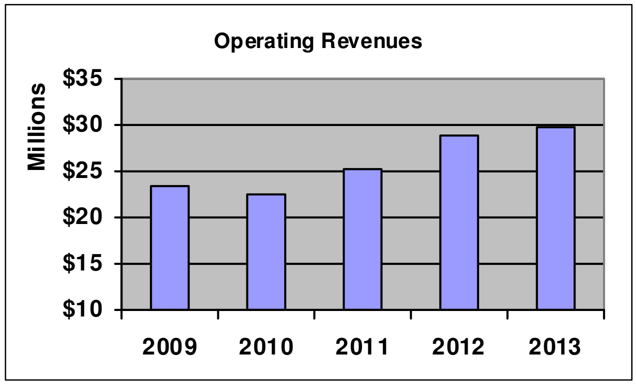
The Port's current assets at 12/31/2013 were $34.2 million while current liabilities totaled $10 million.

Financial Analysis - Revenues, Expenses and Changes in Net Position

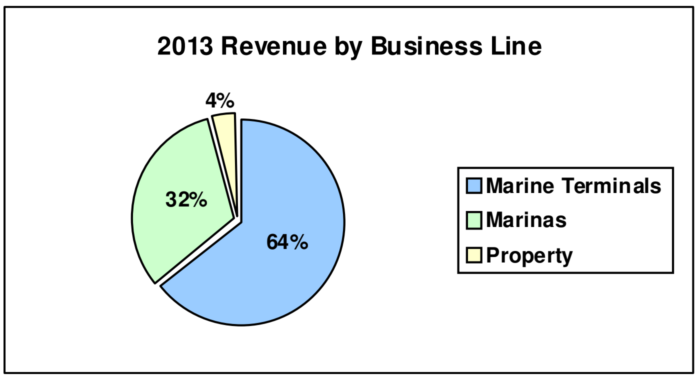
Summary of Revenues, Expenses and Change in Net Position

	2013	2012
Total Operating Revenues	$29,757,454	$28,798,396
Non-operating Revenues	5,659,988	5,549,175
Total Revenues	**35,417,442**	**34,347,571**
Operating Expenses	30,231,370	27,937,469
Non-operating Expenses	7,421,504	3,637,927
Total Expenses	**37,652,874**	**31,575,396**
Excess before Contributions and Adjustments	**(2,235,432)**	**2,772,175**
Capital Contributions	1,231,371	3,330,171
Impairment Loss	-	(7,231,264)
Gain on Sale	-	3,586,742
Increase / (decrease) in Net Position	**$(1,004,061)**	**$2,457,824**
Adjustment for adoption of GASB #65	**(203,217)**	
Change in Net Position	**$(1,207,278)**	**$2,457,824**

The *Statement of Revenues, Expenses and Changes in Net Position* provides insight as to the nature and source of the Port's Revenues and Expenses. Operating Revenues increased $959 thousand (3 %) over 2012. During the same period, general operations and maintenance expenses increased by $1,629,648 (9%) from the previous year.



Marina operations revenues increased by $411 thousand (5%) from 2012. Expenses increased $483 thousand (8%) from 2012. Moorage occupancy remained steady at just under 80% overall occupancy. We saw continued increases in travelift operations and upland boat storage.



Marine terminal operations revenues increased $1.0 million (5%) from the previous year. In 2013, the marine terminals had 175 Port calls which were up from 167 port calls in 2012. Overall tonnage shipped through the terminals was up 31% to a total of 360 thousand short tons of cargo. The increase in cargo throughput activity resulted marine terminals operating expenses to increasing by $1.2 million (11%) over 2012.

Property revenues decreased $436 thousand from the previous year due primarily to the 2012 sale of a leasehold interest in the Port owned Riverside business park. During 2013 the Port restructured its operations and is positioning a number of properties to capture the increased demand that has resulted from the improvement of the local and national economy. This division had operating expenses of $1.07 million which was a reduction of $75 thousand recorded in 2012.

Contacting the Port's Financial Management

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

PORT OF EVERETT

STATEMENT OF NET POSITION
December 31, 2013

ASSETS	
Current Assets	
Cash and cash equivalents (Note 1)	$1,943,940
Investments (Note 2)	25,499,950
Restricted assets (Note 1)	
Investments (Note 2)	394,687
Taxes receivable (Note 3)	104,898
Accounts receivable (net of allowance for uncollectible)	4,350,345
Interest receivable	148
Due from other governments	1,247,120
Inventory	232,833
Prepaids	417,371
Total Current Assets	**34,191,292**
Noncurrent Assets	
Restricted assets: (Note 1)	
Cash and cash equivalents (Note 1)	6,729
Investments (Note 2)	35,000
Capital assets not being depreciated (Note 4)	
Land	52,972,518
Construction in Progress	8,171,782
Capital assets being depreciated (Note 4)	
Property, Plant and Equipment (Note 4)	
Buildings	190,309,077
Improvements other than building	55,917,956
Machinery and equipment	19,257,957
Intangible assets	7,462,397
Less: Accumulated Depreciation	(92,914,142)
Other noncurrent assets	112,038
Total Noncurrent Assets	**241,331,312**
Total Assets	**$275,522,604**
DEFERRED OUTFLOWS OF RESOURCES	
Advance refunding deferred outflow (Note 1)	333,990
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$333,990**

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

PORT OF EVERETT

STATEMENT OF NET POSITION
December 31, 2013

LIABILITIES	
Current Liabilities:	
Warrants payable	$633,926
Accounts payable	3,379,390
Accrued taxes payable	20,910
Accrued interest payable	127,586
Current portion of notes payable	429,240
Current portion of long-term obligations (Note 9)	2,740,000
Current portion of Environmental Remediation Liabilities (Note 14)	2,186,566
Other current liabilities	462,317
Total Current Liabilities	**9,979,935**
Noncurrent Liabilities:	
General obligation bonds, net (Note 9)	22,575,543
Revenue bonds, net (Note 9)	11,634,333
Notes payable	1,644,669
Employee leave benefits	849,314
Environmental Remediation Liability (Note 14)	11,897,242
Total Noncurrent Liabilities	**48,601,101**
Total Liabilities	**$58,581,036**
NET POSITION:	
Net investment in capital assets	202,487,750
Restricted for capital projects	436,416
Unrestricted	14,351,392
TOTAL NET POSITION	**$217,275,558**

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

PORT OF EVERETT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2013

OPERATING REVENUES:	
Marina operations	$9,515,182
Marine terminal operations	19,064,545
Property lease/rental operations	1,177,727
Total Operating Revenues	**29,757,454**
OPERATING EXPENSES:	
General operations	16,664,981
Maintenance	3,609,267
General and administrative	2,976,254
Depreciation (Note 4)	6,980,868
Total Operating Expenses	**30,231,370**
Operating Income (Loss)	**(473,916)**
NONOPERATING REVENUES (EXPENSES):	
Environmental grant revenues	1,820,389
Investment income	424,564
Taxes levied	3,383,785
Gain (loss) on disposition of assets	22,851
Public access	(189,245)
Public access depreciation (Note 4)	(226,936)
Interest expense	(1,446,483)
Election Expense	(22,529)
Environmental remediation expense	(5,248,865)
Other nonoperating expenses, net	(279,047)
Total Nonoperating Revenues (Expenses)	**(1,761,516)**
Income (loss) before other revenues, expenses, gains, losses and transfers	**(2,235,432)**
Capital contributions	1,231,371
Increase (decrease) in net position	**(1,004,061)**
Net position - beginning of period	**218,482,836**
Adjustment for adoption of GASB 65 (Note 1)	(203,217)
Net Position - end of period	**$217,275,558**

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

PORT OF EVERETT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	
Marina	$9,479,925
Marine Terminals	17,626,947
Property Lease / Rental	2,875,978
Payments to suppliers	(9,357,968)
Payments to employees	(12,659,078)
Net cash provided by operating activities	**7,965,804**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	3,391,279
Miscellaneous taxes received	46,776
Non-operating receipts	2,712,611
Non-operating expenses	(5,571,945)
Net cash provided by noncapital financing activities	**578,721**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases or construction of capital assets	(6,154,883)
Proceeds from bonds	19,540,000
Principal paid on notes	(410,972)
Principal paid on capital debt	(23,960,000)
Interest paid on capital debt	520,578
Bond issue expense	(149,883)
Contributed capital	1,231,371
Other receipts (payments)	(526,330)
Net cash used by capital and related financing activities	**(9,910,119)**
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	958,323
Interest and dividends	424,564
Net cash used by Investing Activities	**1,382,887**
Net increase in cash and cash equivalents	**17,293**
Balances - beginning of the year	**1,933,376**
Balances - end of the year	**$1,950,669**
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	($473,916)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation	6,980,869
Change in assets and liabilities	
Decrease in accounts receivable	180,924
Decrease in inventory	20,987
Increase in prepayments	(7,826)
Increase in customer deposits	44,471
Increase in accounts payable	1,106,806
Increase in warrants payable	64,446
Increase in taxes accrued	520
Increase in employee benefits payable	48,523
Net cash provided by operating activities	**$7,965,804**

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

Port *of* Everett
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The Ports financial resources are provided by marine terminal facilities, which handle forest products, cement, aircraft parts, and various other commodities; a marina providing moorage for 2,300 pleasure and fishing vessels; and property lease/rentals providing more than 25 property leases.

B. Basis of Accounting and Presentation

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

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

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

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the district are charges to customers for marine terminals, marina, and property/industrial leases. Operating expenses for the district include the cost of labor, administrative expenses and depreciation on capital assets used for the benefit of customers. All revenues and expenses not related to providing services to customers are reported as non-operating revenues and expenses. Included in the non-operating expenses are expenses related to providing the general public access to Port property. This access includes maintaining public access and open spaces, as well as paying the Port's obligations for navigation dredging, as well as other expenses related to open space and public access.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

   It is the Port's policy to invest all temporary cash surpluses. At December 31, 2013, Short-term residual investments of surplus cash were $1,950,669. This amount is classified on the statement of net assets as cash and cash equivalents. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average month end balances maintained during 2013 were $3,049,733.

2. Investments

   All investments of the Port's funds are obligations of the US government, the State Investment Pool or certificates of deposit with Washington state banks and savings and loan institutions. As of December 31, 2013 investments totaled $25,929,637 of which $429,687 was restricted for specific uses.

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

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

3. Receivables
Taxes receivable consists of property taxes and related interest and penalties (See Note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consists of amounts due from individuals or organizations for services provided. Receivables have been recorded net of estimated uncollectible amounts. Because property taxes are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for other receivables are $30,000.

4. Amounts Due To And From Other Governments
These accounts include amounts due to or from other governments for grants, entitlements, loans, taxes and charges for services.

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

	12/31/2013
Cash and Investments - Port of Everett Industrial Development Corp.	$41,729
Investments – North Marina Redevelopment Interpretive Program	257,393
Investments - City of Everett Riverside Industrial Park Construction Permit	125,000
Investments – Fisherman's Tribute Statute	6,838
Investments- Proceeds from 2013 LTGO Bond issuance	5,456
Total as of December 31, 2013	**$436,416**

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

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

8. Employee Leave Benefits
Employee leave benefits are accrued leave payable to employees of the Port. Vacation pay, which may be accumulated up to 48 days, is payable upon resignation, retirement or death. Sick leave may accumulate up to 180 days. Upon separation without cause, employees are paid for accumulated sick leave at 50% of their final balance but not more than 90 days (50% of 180 days). The Port accrues vacation and sick leave benefits as earned. At December 31, 2013 the recorded liability for unpaid vacation and sick leave was $849,314.

9. Deferred Outflows/Inflows of Resources
In 2013, the Port recognized a deferred outflow of resources related to an advance refunding of the Ports 2004 series limited tax obligation bonds. The deferred outflow of resources account on December 31, 2013 totals $333,990 and will be recognized as a component of interest over the remaining life of the refunded debts.

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

D. Recent Accounting Pronouncements

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

In March, 2012, the Government Accounting Standards Board issued GASB No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The guidance is effective for years beginning after December 15, 2012. The Port adopted this guidance in the current year by changing the classification of a Loss on an Advance Refunding to a Deferred Outflow of Resources on the accompanying Statement of Net Position. In addition, this standard required debt issuance costs to be expensed as incurred, resulting in the restatement of beginning balance of net position for 2013 by a decrease of $203,217.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

The Port invests its surplus cash according to a policy adopted by the Commission in Resolution No. 707 on March 12, 1996. The Port's policy is that investment principal be at minimal risk, while seeking a return on investment and following a schedule of maturities that meets cash demands.

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

Investment	Value 12/31/2013
Certificates of Deposit	$234,706
State Investment Pool	25,694,931
Total	**25,929,637**

NOTE 3 - PROPERTY TAXES

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

Property Tax Calendar

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

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

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

The Port's regular levy for 2013 was $.290 per $1,000 on an assessed valuation of $11.5 billion for a total regular levy of $3,338,055. In 2012 the regular tax levy was $4,179,925.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

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

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

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

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

	Balance 12/31/2012	Increases	Decreases	Balance 12/31/2013
Capital Assets, not being depreciated				
Land	$52,156,703	$833,330	$17,515	$52,972,518
Construction in Progress	35,732,926	5,603,633	33,164,777	8,171,782
Total Capital Assets, not being depreciated	87,889,629	6,436,963	33,182,292	61,144,300
Capital Assets, being depreciated				
Buildings	162,529,984	27,916,902	137,809	190,309,077
Improvements other than buildings	55,855,969	93,461	31,474	55,917,956
Machinery and equipment	14,919,804	4,365,087	26,934	19,257,957
Intangible Assets	7,462,397	0	0	7,462,397
Total Capital Assets, being depreciated	240,768,154	32,375,450	196,217	272,947,387
Less accumulated depreciation for:				
Buildings	63,483,211	4,410,219	130,802	67,762,628
Improvements other than buildings	14,582,472	1,795,021	31,472	16,346,021
Machinery and equipment	5,666,326	834,913	12,424	6,488,815
Intangible Assets	2,149,027	167,651	0	2,316,678
Total accumulated depreciation	85,881,036	7,207,804	174,698	92,914,142
Total capital assets, being depreciated, net	$154,887,118	$25,167,646	$21,519	$180,033,245

NOTE 5 - CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2013. At year-end the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Conference Center Upgrades	53,657.28	2,574.72
ESY Upland Cleanup	1,480,722.00	320,019.85
Fender Pile Replacement	0	198,417.00
Floatation Upgrades and Dock Resurface	247,544.00	88,206.69
Interpretive Project	0	196,026.00
Mt. Baker Terminal Railstop	17,472.00	17,472.00
Terminal Pavement Upgrades	339,246.00	80,274.19
Trunkline Repair	233,788.00	45,679.92
Waterfront Center Improvements	61,660.00	2,125.00
Waterfront Place District Signage	328,835.00	193,298.00

NOTE 6 – PENSION PLANS

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

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

Plan Description

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

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

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

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

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

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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

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

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

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

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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

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

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

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

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

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

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

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

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

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

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

.

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

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	263,347

Funding Policy

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

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

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

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

* The employer rates include the employer administrative expense fee currently set at 0.18 %.

** Plan 3 defined benefit portion only.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$15,336	$778,236	$91,947
2012	$13,813	$649,209	$85,629
2011	$27,368	$538,475	$78,129

NOTE 7 - CONTINGENCIES AND LITIGATION

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

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

NOTE 8 – OPERATING LEASES

The Port leases copiers under various operating leases. Total cost for such leases was $20,882 for the year ended December 31, 2013. The future minimum lease payments for noncancelable operating leases are as follows:

Year ending December 31	Amount
2014	$59,979
2015	51,514
2016	51,514
2017	40,321
2018	39,233
2019	26,156
Total	$268,717

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

Year ending December 31	Amount
2014	$1,273,148
2015	1,238,944
2016	1,123,349
2017	695,585
2018	628,171
2019-2023	2,347,636
2024-2028	1,519,657
2029-2033	946,264
2034-2038	684,760
2039-2043	684,760
2044-2048	382,257
2049-2053	270,000
2054-2056	162,000
Total	$11,956,531

NOTE 9 – LONG-TERM DEBT

A. Long-Term Debt

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

During 2013, the Port issued $19,540,000 in Limited Tax General Obligation Refunding Bonds. These bonds were issued to prepay a subordinate lien loan agreement in the amount of $15,000,000 with Union Bank of California and to advance refund $6,125,000 of the Port's series 2004 limited tax obligation bonds, maturing in 2014 through 2023.

The general obligation bonds outstanding at 12/31/2013 are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	2013 Principal Payment	Balance Outstanding at 12/31/2013
2006 Series A & B – Providing funds to finance capital improvements to facilities of the Port and refund certain outstanding limited tax general obligation bonds of the Port.	2016	4%-7%	$8,080,000	$970,000	$3,210,000
2013 Limited Tax General Obligation Bonds- Refunding of outstanding debt.	2032	2%-5%	$19,540,000	$405,000	$19,135,000

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

Year Ending December 31	Principal	Interest
2014	2,030,000	922,300
2015	2,095,000	851,100
2016	2,185,000	766,950
2017	1,090,000	656,400
2018	1,135,000	612,800
2019-2023	6,265,000	2,469,175
2024-2028	3,855,000	1,346,838
2029-2032	3,690,000	472,500
Total	$22,345,000	$8,098,063

The revenue bonds outstanding at 12/31/2013 are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	2013 Principal Payment	Balance Outstanding at 12/31/2013
2007 Series - Various capital improvements to port facilities	2026	4.0% to 5.5%	$16,225,000	$670,000	$12,275,000

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

Year Ending December 31	Principal	Interest
2014	710,000	537,550
2015	750,000	498,500
2016	790,000	457,250
2017	830,000	413,800
2018-	865,000	378,525
2019-2023	4,890,000	1,336,994
2024-2026	3,440,000	290,388
Total	$12,275,000	3,913,007

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

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

At December 31, 2013, the Port district's assessed value and limitation of unvoted General Obligation debt are as follows:

Total assessed value	$12,472,514,782
.25% limitation of indebtedness	31,181,287
Unvoted GO Bonds issued and outstanding	22,345,000
Unvoted GO Bond margin	8,836,287

Revenue Debt Service Coverage						
Year	Operating Revenues	Operating Expenses (1)	Nonoperating Income (2)	Available for Debt Service	Revenue Debt Service	Debt Service Coverage (3)
2009	23,522,283	17,576,664	3,329,710	9,275,329	1,629,524	5.69
2010	22,472,752	17,458,213	2,590,481	7,605,020	1,663,005	4.57
2011	25,345,293	19,358,420	2,144,226	8,131,099	1,767,581	4.60
2012	28,798,396	21,265,975	2,650,836	10,183,256	1,870,049	5.45
2013	29,757,454	23,250,502	3,181,778	9,688,730	1,813,299	5.34

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

B. Changes in Long-Term Liabilities

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

	Beginning Balance 12/31/2012	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Bonds payable:					
G. O. Bonds	$10,790,000	$19,540,000	$7,985,000	$22,345,000	$2,030,000
Revenue Bonds	28,250,000	0	15,975,000	12,275,000	710,000
Unamortized Premium – Rev.	74,739	0	5,339	69,400	
Unamortized Premium – G.O.	301,636	2,136,936	178,029	2,260,543	
Unamortized Discounts	(1,048)	0	(981)	(67)	
Unamortized Charge – Ref. Bonds *	(27,424)	0	(27,424)	0	
Total Bonds Payable	39,387,903	21,676,936	24,114,963	36,949,876	2,740,000
Notes Payable	2,484,881	0	410,972	2,073,909	429,240
Compensated Absences	800,791	1,585,457	1,536,934	849,314	
Accrued Environmental Expenses	13,222,835	5,248,865	4,387,892	14,083,808	2,186,566
Total Long-Term Liabilities	$55,896,410	$28,511,258	$30,450,761	$53,956,907	$5,355,806

* Reclassified as Deferred Outflow of Resources (Note 1)

NOTE 10 - RISK MANAGEMENT

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

The Port participates in a insurance buying group which is brokered through a contract with Alliant Insurance Services, Inc. The policy has been tailored for the risk management needs of public port authorities. General liability coverage is in effect to a limit of $1 million per occurrence ($3 million general aggregate) with a $25,000 deductible. Excess liability coverage is in effect with a limit of $50 million over the first $1 million of loss. Commercial property coverage with a loss limit of $250 million with a deductible of $25,000 is in effect. In addition, the Port maintains standard business automobile, construction, and boiler and machinery coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

NOTE 11 – MATERIAL CUSTOMERS

Operating receipts from a local aerospace company represent 44% of the operating receipts for 2013. The total billings for this customer in 2013 equaled $13,206,535 and of this amount $2,589,275 remains outstanding as of December 31, 2013.

NOTE 12 – BUSINESS LINE INFORMATION

The Port operates shipping marine terminals, a marina, and leases industrial property, which are primarily financed by user charges. Current Assets, Deferred Outflows of Resources, Liabilities, Net Position, and Cash Flow are accounted for on a Port-wide basis and are not identifiable to a particular business line. Information on operating results from each business line for the year ended December 31, 2013 is presented below.

	Marine Terminals	Marina	Property Leases	Total
Operating Revenue	$19,064,545	$9,515,182	$1,177,727	$29,757,454
Operating Expense	12,608,603	6,580,370	1,065,189	20,254,162
Depreciation Expense	3,138,984	2,862,714	809,869	6,811,567
Income From Operations	$3,316,958	$72,098	($697,331)	2,691,725
Administrative Expense				3,165,641
Net Operating Income				($473,916)

NOTE 13 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS

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

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

The Port's estimate of its pollution remediation obligations is analyzed by independent environmental consultants annually (using the expected cash flow technique) and has been estimated at $31,910,200 on December 31, 2013. In some cases, the Port has successfully recovered Port-incurred investigation and cleanup costs from other responsible parties. The Port will continue to seek appropriate recoveries in the future. As of December 31, 2013, unrealized recoveries were estimated at $17,826,393. The Port liability will change over time due to changes in cost estimates, changes in technology, and changes in governing laws and regulations. In 2013, the Port recognized an increase in the accrued liability in the amount of $5,248,865. During the fiscal year 2013, the Port has recorded recoveries in the amount of $68,325, and expended $4,387,892 in cleanup activities.

In 2013 the Port recognized grant revenues in support of its cleanup program from the Department of Ecology Model Toxics Control Act (MTCA) in the amount of $1,260,648.

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

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

NOTE 15 – SUBSEQUENT EVENT

On January 31, 2014, the port sold 3.34 acres of surplus land, together with improvements, to a private company. This sale resulted in a net gain to the Port of $298,528.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Performance Audit	**Lou Adams, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

Website	**www.sao.wa.gov**
Subscription Service	**portal.sao.wa.gov/saoportal/Login.aspx**