Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Grant County Port District No. 1 (Port of Quincy)

For the period January 1, 2012 through December 31, 2013

Published February 2, 2015

Report No. 1013528

Washington State Auditor
Troy Kelley

February 2, 2015

Board of Commissioners
Port of Quincy
Quincy, Washington

Report on Financial Statements

Please find attached our report on the Port of Quincy’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

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Port of Quincy
Grant County
January 1, 2012 through December 31, 2013

Board of Commissioners
Port of Quincy
Quincy, 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 Quincy, Grant County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated December 5, 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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

As described in Note 13 to the financial statements, the Port's primary Intermodal Yard tenant ceased operations in August 2014. As a result of this tenant vacancy, there exists uncertainty about the Port's ability to maintain Intermodal Yard services at present levels.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

December 5, 2014

Independent Auditor's Report on Financial Statements

Port of Quincy
Grant County
January 1, 2012 through December 31, 2013

Board of Commissioners
Port of Quincy
Quincy, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Quincy, Grant County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Quincy, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

As described in Note 13 to the financial statements, the Port's primary Intermodal Yard tenant ceased operations in August 2014. As a result of this tenant vacancy, there exists uncertainty about the Port's ability to maintain Intermodal Yard services at present levels. 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 10 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

December 5, 2014

Financial Section

Port of Quincy
Grant County
January 1, 2012 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Introduction

The following is Port District No. 1 of Grant County's (Port of Quincy) (the Port) Management's Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2013 and 2012. The 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. Information contained in the MD&A has been prepared by Port management and should be read in conjunction with the financial statements and the notes. The notes to financial statements are essential to a full understanding of the data contained in the financial statements.

Overview of the Financial Statements

The Port falls under the financial reporting requirements of Governmental Accounting Standards Board (GASB). Since the Port is comprised of a single enterprise fund, no fund level financial statements are shown or required.

The financial section of this Annual Report consists of three parts: MD&A, the basic financial statements, and the notes to financial statements. The basic financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows.

The statements of net position and revenues, expenses, and changes in net position provide the Port with an overall financial position and results of operations to help assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. Over time, increases or decreases in net position may serve as an indicator of whether the Port is financially stable or if there is a going concern.

The statements of revenues, expenses, and changes in net position show how the Port's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

The statements of cash flows report 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 statements of revenues, expenses, and changes in net position is also included.

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

Financial Report

Financial Position:

The statements of net position present the financial position of the Port as of December 31, 2013, 2012, and 2011. The statements include all the Port's assets and liabilities. As described earlier, the net position serves as an indicator of the Port's financial position. A summarized comparison of the Port's assets, liabilities, and net position follows:

	Years Ended December 31,		
	2013	2012	2011
Current Assets	$ 589,961	$ 1,178,503	$ 964,918
Noncurrent Assets:			
Capital Assets	11,091,205	11,793,388	13,136,674
Other	96,306	74,594	82,675
Total Assets	11,777,472	13,046,485	14,184,267
Current Liabilities	752,943	630,951	670,390
Long-Term Liabilities	6,893,894	7,201,092	8,056,019
Total Liabilities	7,646,837	7,832,043	8,726,409
Deferred Inflows of Resources	100,629	44,419	-
Net Position:			
Invested in Capital Assets, Net of Related Debt	3,858,726	4,284,469	4,705,655
Unrestricted	156,905	885,554	752,203
Total Net Position	$ 4,015,631	$ 5,170,023	$ 5,457,858

Financial Report (Continued)

Statements of Revenues, Expenses, and Changes in Net Position:

A summarized comparison of the Port's revenues, expenses and changes in net position follows:

	Years Ended December 31,		
	2013	2012	2011
Operating Revenues:			
Property Lease/Rental Operation	$ 148,907	$ 146,803	$ 180,022
Golf Course	363,229	366,026	336,602
Intermodal Park	993,486	733,430	614,748
Other	-	-	-
Total Operating Revenues	1,505,622	1,246,259	1,131,372
Nonoperating Revenues:			
Grant Funds	-	1,186,646	8,573
Ad Valorem Tax Levy and Leasehold Tax	605,568	567,200	532,334
Gain on Disposition of Assets	2,500	334,621	231,564
Other	76,082	42,310	34,509
Total Nonoperating Revenue	684,150	2,130,777	806,980
Total Revenues	$ 2,189,772	$ 3,377,036	$ 1,938,352
Expenses:			
Operating Expenses	$ 2,720,236	$ 2,533,994	$ 2,406,075
Nonoperating Expenses	623,928	1,130,877	421,518
Total Expenses	3,344,164	3,664,871	2,827,593
Decrease in Net Position	(1,154,392)	(287,835)	(889,241)
Net Position - Beginning of Year	5,170,023	5,457,858	6,347,099
Net Position - End of Year	$ 4,015,631	$ 5,170,023	$ 5,457,858

Financial Highlights

- The Port's overall operating revenues increased by $259,363 and $114,887 for 2013 and 2012, respectively.
- The assets of the Port exceeded its liabilities at the close of each calendar year by $4,015,631 and $5,170,023 for 2013 and 2012, respectively.
- The Port's operating expenses increased by $186,242 and $127,919 for 2013 and 2012, respectively.
- Nonoperating revenue decreased by $1,446,627 and increased $1,323,797 for 2013 and 2012, respectively.

Financial Highlights (Continued)

The mission statement of the Port is: "The Port of Quincy is committed to facilitate and expand trade promotion, industrial development, and tourism and to maximize opportunities for area residents and businesses." A great deal of time and energy is spent on attracting growth within the Port's boundaries, which results in increased assessed values of the district as evidenced below:

YEAR LEVY Assessed	YEAR LEVY Collected	ASSESSED VALUATION	Levy Rate	Levy Amount
2006	2007	$ 999,009,568	0.000320140	$ 319,823
2007	2008	$ 1,213,763,729	0.000324020	$ 393,284
2008	2009	$ 1,671,595,311	0.000296060	$ 494,892
2009	2010	$ 2,022,982,702	0.000264770	$ 535,625
2010	2011	$ 2,044,526,983	0.000256280	$ 523,971
2011	2012	$ 2,107,228,153	0.000267485	$ 563,652
2012	2013	$ 2,241,505,202	0.000275958	$ 618,561
2013	2014	$ 2,339,479,122	0.000271300	$ 634,701

Tax Levy: Over the years, the Port has worked to minimize the Port's tax levy. The legal limit for port districts to levy is 0.45000 per $1,000. As noted above, the Port levy collected in 2012 was 0.267485 per $1,000, and 0.275958 for collection in 2013.

The working capital of the Port has weakened due to continued expansion within the Intermodal facility, losses from Colockum Ridge Golf Course, and the Port's focus on aggressive development within their industrial parks. The aggressive development has been intentional and the Port has established financial goals to manage risk and be able to focus on continuing economic development. Working capital is being stabilized due to several completed sales of property and negotiations for other sales at the beginning of 2014. The Port is confident that their approach to economic development will improve the financial position of the Port in the near future and enable the Port district to be a viable force in the long run.

The Port continues to make infrastructure improvements to its industrial parks to encourage creating economic development opportunities for the Quincy Valley, especially technology and transportation-related projects. In 2014, the Port is beginning to develop Industrial Park 5 which is located within the city of George, Washington. The developments will include an industrial water system as well as other infrastructure. Subsequent to December 31, 2013, a tenant was secured who is going to develop a 5 million dollar wine grape crushing facility. Approximately 50 acres of Port property within Industrial Park 5 remain available for future industries. The Port also owns approximately 32 acres in which infrastructure is in place and is available for industry.

In 2009, the Port purchased an additional 101 acres within Grant County's growth management boundaries in anticipation of future economic development opportunities. In 2014, the Port purchased additional land. The property, which is referred to as Industrial Park 6, has all been sold as of 2014.

Financial Highlights (Continued)

In 2010, the Port purchased five acres and commercial buildings adjacent to Industrial Park 2 with the intent to create additional long-term rental property as well as completing any remaining development for Industrial Park 2. The property has been continually leased since 2011.

The Port operates a local municipal airport with 6 individual hangers. These hangers are leased out and the Port continues to make efforts to expand and improve the airport by pursuing applicable grants.

While nonoperating revenues increased in 2012 and 2011 because of land sales and grants awarded, 2013 nonoperating revenue decreased due to the lack of such activity. The Port anticipates a significant increase in nonoperating revenue in 2014 due to additional land sales.

Capital Assets: The Port purchased $76,460 in new capital assets during 2013 as compared to $46,208 in 2012. The majority spent for both years was for additional machinery and equipment. See Note 3 to the financial statements – Capital Assets and Depreciation.

Long-Term Debt: The Port holds notes payable to Washington State Community Economic Revitalization Board (CERB), the United States Department of Agriculture (USDA), Farm Credit Services (FCS), Washington LiftTruck, and Baseline Lake, LLC. A note to John Deere Credit was paid off in 2013 and new long-term debt of $39,923 was acquired for the purchase of equipment. No new long-term debt was acquired in 2012. See Note 6 to the financial statements – Long-Term Debt.

Commitments for Capital Outlays: In 2013, the Port entered into an option to purchase 142 acres of ground adjacent to Industrial Park 6. This transaction was completed in 2014. During 2013, the Port entered into two options to purchase additional property. Subsequent to December 31, 2013, the Port began negotiations to purchase 80 acres adjacent to Industrial Park 6.

Intermodal Industrial Park: The Port continues its agreement with Cold Train of Kansas City for the movement of refrigerated containers from Quincy to Chicago. Revenue increased in 2013 by $260,056 as compared to an $118,682 increase in 2012. The intermodal facility now employs five full-time employees.

Colockum Ridge Golf Course: The Port continues to own and operate the golf course. While the golf course has not been a profitable endeavor, the Port continues to strive to at least break even. The original and ongoing intent of the golf course is to provide the community and future industrial development with recreational opportunities. Approximately 13,000 rounds of golf were played at the facility during 2013. The course is also being used by the Quincy School District's golf team for practices and matches. Several local tournaments are held each year.

Data Centers: In 2010, the Washington State Legislature passed tax incentives beneficial to the expansion of existing data centers located in Quincy. Because of the state approved tax incentives, Microsoft, Yahoo, Dell, Sabey, Intuit, and Vantage have located operations within the Port district's boundaries.

The Port is active in several organizations: Washington Public Ports Association, Grant County Economic Development Council, Great Northern Rail Coalition, Washington State Rail and Quadco, among others. This allows the Port to remain at the cutting edge of economic development.

Financial Highlights (Continued)

Significant successes have occurred over the last few years, but the job remains to look to the future to enhance the opportunities of the Port's district and the public it serves.

The Port is well under its authorized debt capacity and is current on all debt. Risk, in regard to financial condition, is being managed accordingly.

Request for Information

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Port's finances and to show accountability of public funds. If you have any questions regarding this report, or need additional information, please visit our website at www.portofquincy.org or contact Port Comptroller Darci L. Kleyn, CPA at (509) 787-3715, 840 F Street SW, Quincy, WA 98848.

PORT DISTRICT NO. 1 OF GRANT COUNTY (PORT OF QUINCY)
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 287,018	$ 752,223
Interest Receivable	2,159	812
Taxes Receivable	11,175	31,274
Accounts Receivable	145,937	144,199
Grants Receivable	-	213,208
Inventory	6,351	8,977
Notes Receivable	103,418	-
Prepaid Expenses	33,837	27,810
Other Current Assets	66	-
Total Current Assets	589,961	1,178,503
NONCURRENT ASSETS		
Notes Receivable	51,931	55,290
Land Purchase Options	30,000	-
Capital Assets Not Being Depreciated:		
Land	5,469,926	5,469,926
Construction in Progress	307	-
Intangible Assets, Net of Accumulated Amortization		
of $82,500 and $63,196, Respectively	-	19,304
Capital Assets Being Depreciated:		
Property, Plant, and Equipment	12,786,466	12,710,313
Less: Accumulated Depreciation	(7,165,494)	(6,386,851)
Total Noncurrent Assets, Net	11,173,136	11,867,982
Total Assets	$11,763,097	$13,046,485

See accompanying Notes to Financial Statements.

	2013	2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	$ 174,043	$ 77,170
Accrued Expenses	101,906	94,277
Retirement Plan Payable	4,336	2,081
Interest Payable	93,173	98,696
Short-Term Payable	40,000	50,000
Lease Deposits	900	900
Current Maturities of Long-Term Leases	67,589	63,687
Current Maturities of Long-Term Debt	270,996	244,140
Total Current Liabilities	752,943	630,951
NONCURRENT LIABILITIES		
Long-Term Leases (Net of Current Maturities)	249,049	316,647
Long-Term Debt (Net of Current Maturities)	6,644,845	6,884,445
Total Noncurrent Liabilities	6,893,894	7,201,092
Total Liabilities	7,646,837	7,832,043
DEFERRED INFLOWS OF RESOURCES		
Crescent Bar Payments	100,629	44,419
NET POSITION		
Invested in Capital Assets, Net of Related Debt	3,858,726	4,284,469
Unrestricted	156,905	885,554
Net Position	4,015,631	5,170,023
Total Net Position	$ 11,763,097	$ 13,046,485

See accompanying Notes to Financial Statements.

PORT DISTRICT NO. 1 OF GRANT COUNTY (PORT OF QUINCY)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Property Lease/Rental Operation	$ 148,907	$ 146,803
Golf Course	363,229	366,026
Intermodal Park	993,486	733,430
Total Operating Revenues	1,505,622	1,246,259
OPERATING EXPENSES		
Depreciation and Amortization	797,947	783,144
Salaries	439,239	420,750
Fuel	578,550	415,487
Professional Fees	244,674	363,888
Repairs and Maintenance	117,588	76,743
Legal Fees	65,349	51,823
Taxes	83,094	77,956
Employee Benefits	93,536	69,964
Pro Shop Inventory Costs	48,527	54,137
Fertilizers and Chemicals	29,391	37,722
Utilities	42,118	38,622
Operating Supplies	19,207	29,322
Dues and Subscriptions	29,553	16,960
Rent	3,775	8,732
Insurance	44,232	30,525
Advertising and Promotion	13,201	24,718
Travel and Entertainment	7,442	5,975
Telephone	7,539	8,234
Office Supplies	6,349	6,181
Bank Charges	5,975	-
Fees and Permits	9,290	3,954
Irrigation Water	3,460	3,575
Custom Hire	29,387	4,724
Security	813	549
Education	-	309
Total Operating Expenses	2,720,236	2,533,994
LOSS FROM OPERATIONS (Balance Carried Forward)	(1,214,614)	(1,287,735)

See accompanying Notes to Financial Statements.

PORT DISTRICT NO. 1 OF GRANT COUNTY (PORT OF QUINCY)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
LOSS FROM OPERATIONS (Balance Brought Forward)	$ (1,214,614)	$ (1,287,735)
NONOPERATING REVENUES (EXPENSES)		
Ad Valorem Tax Levy and Leasehold Tax	605,568	567,200
Interest Income	30,484	23,354
Grant Funds	-	1,186,646
Miscellaneous Income	45,598	18,956
Gain on Sale of Equipment	2,500	334,621
Cold Train Settlement	(22,645)	-
Weed District Assessment	(429)	(439)
Miscellaneous Expenses	(2,601)	(7,252)
Interest Expense	(353,047)	(387,749)
Infrastructure Expense Contributed to Local Governments	(245,206)	(735,437)
Total Nonoperating Revenues, Net	60,222	999,900
DECREASE IN NET POSITION	(1,154,392)	(287,835)
Net Position - Beginning of Year	5,170,023	5,457,858
NET POSITION - END OF YEAR	$ 4,015,631	$ 5,170,023

See accompanying Notes to Financial Statements.

PORT DISTRICT NO. 1 OF GRANT COUNTY (PORT OF QUINCY)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Leases	$ 1,560,094	$ 1,340,199
Cash Paid to Employees	(430,361)	(452,087)
Cash Paid to Suppliers	(1,388,638)	(1,298,668)
Net Cash Used by Operating Activities	(258,905)	(410,556)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Borrowings from Capital Debt	39,923	-
Purchases of Capital Assets	(76,460)	(46,208)
Principal Paid on Capital Debt	(252,667)	(862,041)
Principal Paid on Capital Leases	(63,696)	(60,059)
Interest Paid on Capital Debt	(358,570)	(391,519)
Land Purchase Options	(30,000)	-
Payments Received on Notes Receivable	3,358	3,153
Proceeds from Disposition of Assets	2,500	945,899
Net Cash Used by Capital and Related Financing Activities	(735,612)	(410,775)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends	29,137	23,401
Issuance of Note Receivable	(103,417)	-
Net Cash (Used) Provided by Investing Activities	(74,280)	23,401
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Taxes Received	625,667	565,731
Nonoperating Income	258,806	992,394
Short-Term Payable	(10,000)	50,000
Nonoperating Expenses	(270,881)	(743,128)
Net Cash Provided by Noncapital Financing Activities	603,592	864,997
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(465,205)	67,067
Cash and Cash Equivalents - Beginning of Year	752,223	685,156
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 287,018	$ 752,223

See accompanying Notes to Financial Statements.

	2013		2012
RECONCILIATION OF LOSS FROM OPERATIONS			
TO NET CASH USED BY OPERATING ACTIVITIES			
Loss from Operations	$ (1,214,614)		$ (1,287,735)
Adjustments to Reconcile Loss from Operations to			
Net Cash Used by Operating Activities:			
Depreciation and Amortization	797,947		783,144
(Increase) Decrease in Assets:			
Accounts Receivable	(1,738)		67,337
Inventory	2,626		2,589
Prepaid Expenses and Other Assets	(6,093)		(1,814)
Increase (Decrease) in Liabilities:			
Accounts Payable	96,873		30,657
Accrued Expenses and Retirement Plan Payable	9,884		(31,337)
Unearned Lease Income	56,210		26,603
Net Cash Used by Operating Activities	$ (258,905)		$ (410,556)

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Summary

Port District No. 1 of Grant County (Port of Quincy) (the Port), Grant County, Washington, was incorporated in March 1958, and operates under the laws of the state of Washington applicable to port districts. The financial statements of the Port have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governments.

Reporting Entity

The Port is a municipal corporation created through enabling legislation by the consent of the voters within the Port district. The Port is a special purpose government entity that provides rental property, an airport, and a golf course to the general public, and is supported primarily through user charges and real property taxes. The Port has no component units, stockholders, or equity holders. An elected three-member board governs the Port. As required by accounting principles generally accepted in the United States of America, management considered all potential component units in defining the reporting entity. In addition, the Port operates an intermodal facility.

On March 26, 1982, a resolution was adopted to approve and authorize the creation of the Industrial Development Corporation of Port District No. 1 of Grant County, Washington. That corporation was established to act on behalf of the Port to issue nonrecourse revenue bonds for the purpose of financing the costs of qualified industrial development facilities. Separate financial statements are issued for that corporation, if necessary. There was no financial activity in this corporation for the years ended December 31, 2013 and 2012.

Basis of Accounting and Reporting

The accounting records of the Port 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 an “economic resources” measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with the Port’s activity are included on the statements of net position. The reported net total position is segregated into three components: restricted, unrestricted, and net investment in capital assets (the Port has no restricted 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 its operating, investing, and cash flows from capital, noncapital, and related financing activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Reporting (Continued)

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 and nonoperating revenues and expenses. 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 rental of property owned by the Port. The Port also recognizes the income from the golf course and Intermodal Park as operating revenue. Operating expenses for the Port include administrative expenses, depreciation on capital assets, repairs and maintenance of property, real estate taxes, and other property-related costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2013 and 2012, the Port was holding $287,018 and $752,223 in short-term residual investments of surplus cash, respectively. This amount is classified on the statements of net position as cash and cash equivalents.

The Port treats highly liquid short-term investments with a maturity of three months or less as cash equivalents.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables, based on a review of all outstanding amounts on a monthly basis. The Port determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Taxes Receivable

Taxes receivable are monitored and adjusted by Grant County. It consists of property taxes and related interest and penalties. See Note 2 to the financial statements – Property Taxes.

Capital Assets

The Port determines the capitalization of assets on a case-by-case basis. Capital assets are recorded at cost and are depreciated using the straight-line depreciation method over the following lives: equipment 5 to 10 years, improvements 15 years, and real property at 39 years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

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

Revenues

All revenues or other receipts must be disbursed in accordance with provisions of various statutes and agreements with the bondholders.

Grants

The Port has, at various times, received grants-in-aid funds for construction of the airport, industrial sites, and certain recreational facilities.

Estimates and Assumptions

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

Intangible Assets

Loan fees and bond costs are expensed as incurred.

Deposits

The Port's deposits are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

As required by state law, all investments of the Port's funds are obligations of the state government's investment pool allowed by Chapter 39.598 RCW. Funds invested in this pool are insured by the PDPC.

Concentrations of Credit Risk

The Company performs credit evaluations of its customers and subcontractors and may require surety bonds. Liens are filed, when permissible, on construction contracts where collection problems are anticipated. As of December 31, 2013 and 2012, accounts receivable are due from customers not concentrated in a particular industry.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Principles

In 2013, the Port implemented the following GASB statements:

a) GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance previously contained in various Financial Accounting Standards Board and AICPA pronouncements issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements.

b) GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Accordingly, the accompanying statements of net position report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

c) GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE 2 PROPERTY TAXES

The Grant County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow of resources and recognized as revenue of the period to which it applies. No allowance for uncollectible tax 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.

NOTE 2 PROPERTY TAXES (CONTINUED)

The Port is permitted by law to levy up to $0.45000 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 2013 was $0.275958 per $1,000 on an assessed valuation of $2,241,505,202 for a total regular levy of $618,561. In 2012, the Port's regular tax levy was $0.267485 per $1,000 on an assessed valuation of $2,107,228,153 for a total regular levy of $563,652.

NOTE 3 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 expensed when incurred.

All purchased capital assets are recorded at historical cost. Donations of capital assets are recorded at estimated market value at the time received. In the case of the sale of capital assets, the original cost is removed from the capital asset account and the related depreciation is removed from the accumulated depreciation account. The net gain or loss is credited or charged to income.

According to accounting principles generally accepted in the United States of America, operating expenses include depreciation on all depreciable capital assets including contributed capital assets.

Preliminary costs incurred for proposed projects are recorded as deferred charges pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets. Costs that relate to abandoned projects are charged to expense.

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.

At times, the Port may expend funds to improve the infrastructure on its land where, when the project is complete, that improvement does not remain an asset of the Port. Examples of this are water and sewer systems and road improvements that once complete are maintained by the City of Quincy. It is the Port's policy to expense these types of improvements.

NOTE 3 CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

The Port records property, plant, and equipment at cost. Depreciation is computed by the straight-line method based upon estimated useful lives of 5 to 49 years.

As of December 31, 2012, the Port was developing infrastructure associated with the sale of 13 acres to Amway in Industrial Park 6. The construction was facilitated using CERB/State funding. The sale was completed in 2013.

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

	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital Assets Not Being Depreciated:				
Land	$ 5,469,926	$ -	$ -	$ 5,469,926
Construction in Progress	-	307	-	307
Total Capital Assets, Not Being Depreciated	5,469,926	307	-	5,470,233
Capital Assets Being Depreciated:				
Buildings	1,654,535	-	-	1,654,535
Improvements Other than Buildings	9,205,868	-	-	9,205,868
Machinery and Equipment	1,849,910	76,153	-	1,926,063
Total Capital Assets Being Depreciated	12,710,313	76,153	-	12,786,466
Less Accumulated Depreciation for:				
Buildings	(488,162)	(42,585)	-	(530,747)
Improvements Other than Buildings	(5,233,750)	(550,248)	-	(5,783,998)
Machinery and Equipment	(664,939)	(185,810)	-	(850,749)
Total Accumulated Depreciation	(6,386,851)	(778,643)	-	(7,165,494)
Total Capital Assets Being Depreciated	6,323,462	(702,490)	-	5,620,972
Capital Assets, Net	$ 11,793,388	$ (702,183)	$ -	$ 11,091,205

NOTE 3 CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Capital assets activity for the year ended December 31, 2012 was as follows:

	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital Assets Not Being Depreciated:				
Land	$ 6,075,964	$ -	$ (606,038)	$ 5,469,926
Capital Assets Being Depreciated:				
Buildings	1,654,535	-	-	1,654,535
Improvements Other than Buildings	9,210,407	3,495	(8,034)	9,205,868
Machinery and Equipment	1,809,597	42,713	(2,400)	1,849,910
Total Capital Assets Being Depreciated	12,674,539	46,208	(10,434)	12,710,313
Less Accumulated Depreciation for:				
Buildings	(445,577)	(42,585)	-	(488,162)
Improvements Other than Buildings	(4,690,724)	(547,714)	4,688	(5,233,750)
Machinery and Equipment	(477,528)	(187,911)	500	(664,939)
Total Accumulated Depreciation	(5,613,829)	(778,210)	5,188	(6,386,851)
Total Capital Assets Being Depreciated	7,060,710	(732,002)	(5,246)	6,323,462
Capital Assets, Net	$ 13,136,674	$ (732,002)	$ (611,284)	$ 11,793,388

NOTE 4 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

In the opinion of management, there have been no material violations of finance-related legal or contractual provisions.

NOTE 5 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 GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

NOTE 5 PENSION PLANS (CONTINUED)

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

Plan Description

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

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

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

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

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

NOTE 5 PENSION PLANS (CONTINUED)

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

Plan Description (Continued)

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

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

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

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

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

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

NOTE 5 PENSION PLANS (CONTINUED)

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

Plan Description (Continued)

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

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

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

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

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

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

For DRS’ fiscal year 2013, PERS Plan 3 employee contributions were $99 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 10 years of service; or after five years of service, if 12 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.

NOTE 5 PENSION PLANS (CONTINUED)

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

Plan Description (Continued)

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

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

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

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

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

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

NOTE 5 PENSION PLANS (CONTINUED)

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

Plan Description (Continued)

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 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 Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. 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, based on member choice. Two of the options are graduated rates dependent on the employee's age.

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

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

NOTE 5 PENSION PLANS (CONTINUED)

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

Funding Policy (Continued)

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 0.16 percent.

** The employer rate for state elected officials is 10.74 percent for Plan 1 and 7.21 percent for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.5 percent for Plan 1 and 4.64 percent for Plan 2.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 4,297	$ 23,945	$ -
2012	$ 3,434	$ 20,868	$ -
2011	$ 2,965	$ 16,683	$ -

NOTE 6 LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

Description	Security	2013	2012
Farm Credit Services (FCS), Semiannual Payments of $127,697, Including Interest at 5.8%, Maturing December 2016; Original Amount of $3,000,000 was Obtained to Purchase Property	General Obligation Bond	$ 2,737,394	$ 2,830,019
United States Department of Agriculture (USDA), Semiannual Payments of $100,206, Including Interest at 4.25%, Maturing July 2045; Original Amount of $3,800,000 was Obtained to Consolidate Interim Loans to Improve Industrial Park 4	General Obligation Bond	3,459,694	3,511,381
Community Economic Revitalization Board (CERB), Annual Payments of $36,109, Including Interest at 1.6%, Maturing July 2026; Original Amount of $564,200 was Obtained to Construct a Rail Spur and Extend Sewer Lines	None	469,030	501,272
John Deere Credit, Monthly Payments of $597, Maturing June 2013	Equipment	-	2,983
Washington LiftTruck, Monthly Payments of $1,700, Including Interest at 13.445%, Maturing September 2015	Equipment	31,654	-
Baseline Lake, LLC, Annual Payments of Interest Only Through April 2012, then Annual Payments of $81,651, Including Interest at 6%, Maturing April 2016	Land	218,069	282,930
Total		6,915,841	7,128,585
Less: Current Maturities		(270,996)	(244,140)
Total Long-Term Debt		$ 6,644,845	$ 6,884,445

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Bonds Payable:					
USDA	$ 3,511,381	$ -	$ (51,687)	$ 3,459,694	$ 53,925
FCS	2,830,019	-	(92,625)	2,737,394	98,699
Other:					
CERB	501,272	-	(32,242)	469,030	32,744
John Deere	2,983	-	(2,983)	-	-
Baseline Lake	282,930	-	(64,861)	218,069	68,459
Washington Liftruck	-	39,923	(8,269)	31,654	17,169
Total Long-Term Debt	$ 7,128,585	$ 39,923	$ (252,667)	$ 6,915,841	$ 270,996

During the year ended December 31, 2012, the following changes occurred in long-term debt:

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Bonds Payable:					
USDA	$ 3,560,972	$ -	$ (49,591)	$ 3,511,381	$ 51,686
FCS	2,917,415	-	(87,396)	2,830,019	92,562
Other:					
CERB	532,993	-	(31,721)	501,272	32,215
John Deere	10,146	-	(7,163)	2,983	2,983
Baseline Lake	282,930	-	-	282,930	64,694
Adept	686,170	-	(686,170)	-	-
Total Long-Term Debt	$ 7,990,626	$ -	$ (862,041)	$ 7,128,585	$ 244,140

NOTE 6 LONG-TERM DEBT (CONTINUED)

Following is a schedule by years of principal maturities and interest payments relating to long-term debt:

Year Ending December 31,	Principal	Interest	Total
2014	$ 270,996	$ 327,110	$ 598,106
2015	280,503	312,504	593,007
2016	278,931	298,687	577,618
2017	211,913	284,142	496,055
2018	221,940	274,116	496,056
2019-2023	1,279,077	1,201,199	2,480,276
2024-2028	1,540,478	859,340	2,399,818
2029-2033	1,025,698	485,427	1,511,125
2034-2038	680,532	321,525	1,002,057
2039-2403	839,858	162,202	1,002,060
2404-2048	285,915	12,241	298,155
Total	$ 6,915,841	$ 4,538,493	$ 11,454,333

NOTE 7 LEASE COMMITMENTS

Operating Leases

The Port leases certain lands from the Public Utility District No. 2 of Grant County and the City of Quincy. These leases are being accounted for as operating leases. The Public Utility District No. 2 of Grant County lease expired on June 1, 2012, while the City of Quincy lease is set to expire on December 31, 2019. Future minimum lease payments are expected to be $1 annually.

The Port entered into an indefinite land lease with BNSF Railway Company effective January 15, 2013. Rent is to be made in advance, beginning at $1,800 for 2013 and increasing annually by 3 percent. This amount is being reimbursed back to the Port from Custom Apple Packers, Inc., the lessee of the property.

Capital Leases

The Port entered into an operating lease with Yamaha Motor Corp. USA for 25 golf carts. The lease expired in May 2012, at which point the Port purchased the golf carts.

The Port entered into a capital lease with Taylor Leasing Company for a Taylor Reach Stacker. Future minimum lease payments are $7,034 per month. The lease expires March 2018.

NOTE 7 LEASE COMMITMENTS (CONTINUED)

Following is a schedule by years of future lease expense:

Year Ending December 31,	Amount
2014	$ 84,403
2015	84,403
2016	84,403
2017	84,403
2018	21,015
Total Future Minimum Lease Payments	358,627
Less: Amount Representing Interest	(41,989)
Present Value of Future Minimum Lease Payments	316,638
Less: Current Portion of Capital Lease Obligations	(67,589)
Long-Term Portion of Capital Lease Obligations	$ 249,049

NOTE 8 LEASE INCOME

The Port leases out certain facilities under operating lease agreements. Such leases are renewable at their expiration at the lessees' option. Following is a summary of rental and lease income received by the Port:

	2013	2012
Crescent Bar, Inc.	$ -	$ 8,965
Farm Rentals	21,650	17,443
Custom Apple	2,382	2,382
Double JJ Farms	100	100
Airport Hangers	6,210	6,790
Double Diamond Fruit	930	931
Central Washington Concrete	10,049	9,692
Noa Net	5,400	-
Farmer Bean & Seed LLC	50,146	30,945
Golden West Farms, Inc.	9,109	27,357
Central Bean Company, Inc.	29,032	29,032
Quincy Valley Media	8,250	9,000
Hoffman Construction Co.	750	-
Ronald Williams	2,500	-
Other	2,399	4,166
Total	$ 148,907	$ 146,803

NOTE 8 LEASE INCOME (CONTINUED)

Leased assets as of December 31, 2013 were as follows:

	Improvements	Buildings	Land
Cost	$ 968,313	$ 745,724	$ 673,935
Accumulated Depreciation	(956,632)	(356,416)	-
Net Book Value of Leased Assets	$ 11,681	$ 389,308	$ 673,935

Leased assets as of December 31, 2012 were as follows:

	Improvements	Buildings	Land
Cost	$ 1,004,926	$ 745,724	$ 641,964
Accumulated Depreciation	(942,794)	(345,463)	-
Net Book Value of Leased Assets	$ 62,132	$ 400,261	$ 641,964

Following is a schedule by years of future lease income revenue:

Year Ending December 31,	Amount
2014	$ 170,152
2015	183,062
2016	120,938
2017	201,111
2018	50,131
Total	$ 725,394

In addition, the Port leases storage space at the Intermodal Park on a week-to-week basis and the income varies. Income from short-term intermodal leases totaled $-0- and $5,400 in 2013 and 2012, respectively.

NOTE 9 DIRECTORY OF OFFICIALS

Elected			
Commissioners			
		Length of Term	Expiration
District #1	Curt A. Morris	6 Years	December 2019
District #2	Patric F. Connelly	6 Years	December 2017
District #3	Brian Kuest	6 Years	December 2015
Appointed			
Executive Assistant	Sherry A. Harrington		
Attorney	Christopher Ries		
CPA	Darci L. Kleyn		
Mailing Address			
Port District	840 F Street SW		
	Quincy, Washington 98848		

NOTE 10 CONTRIBUTIONS IN AID OF CONSTRUCTION

The Port was awarded grant funds from the Washington State Department of Transportation Local Airport Aid Grant Program in the amounts of $-0- and $3,146 for the years ended December 31, 2013 and 2012, respectively.

The Port was awarded grant funds from the Department of Commerce in the amount of $870,292 for the year ended December 31, 2013.

The Port was awarded grant funds from Grant County's Strategic Infrastructure Project in the amount of $100,000 for the year ended December 31, 2013.

NOTE 11 RISK MANAGEMENT

The Port is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCS, the Interlocal Cooperation Act. The program was formed on September 1, 1998, when 32 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2012, there are over 250 members in the pool.

The pool provides the following forms of joint self-insurance and excess coverage for its members: property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability. General, automobile, and wrongful acts are included to fit members' various needs.

The pool acquires liability insurance through its administrator, Canfield, which is subject to a per-occurrence self-insured retention of $100,000. Members are responsible for a $1,000 deductible for each claim, while the pool is responsible for the remaining $100,000 self-insured retention. Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the pool is a cooperative pool, there is joint liability among the participating members toward sharing of the $100,000 self-insured retention. The pool also purchases a Stop Loss Policy with an attachment point of $2,815,000 to cap the total claims paid by the pool in any one year.

Property insurance is subject to a per-occurrence self-insured retention of $25,000. Members are responsible for a $1,000 deductible for each claim. The pool bears the $25,000 self-insured retention in addition to the deductible.

NOTE 11 RISK MANAGEMENT (CONTINUED)

Equipment breakdown insurance is subject to a per-occurrence deductible of $2,500. Members are responsible for the deductible amount of each claim. There is no pool self-insured retention on this coverage.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31, terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of 10 members is selected by the membership from three geographic areas of the state on a staggered-term basis and is responsible for conducting the business affairs of the pool. The pool has no employees. Claims are filed by members with Canfield, which has been contracted to perform pool administration, claims adjustment and administration, and loss prevention for the pool. Fees paid to the third-party administrator under this arrangement for the year ended August 31, 2012, were $1,099,472.

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Port has recorded in its financial statements all material liabilities; there are no material contingent liabilities to record. In the opinion of management, the Port's 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 request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants.

On January 19, 2011, several of the residents of Crescent Bar Island, as well as several associations comprised of residents of Crescent Bar Island (the Plaintiffs), commenced suit in the United States District Court for the Eastern District of Washington (the District Court) against Grant County PUD, Port District No. 1 of Grant County (the Port of Quincy), and Crescent Bar, Inc., raising claims arising from Grant County PUD's nonrenewal of the Plaintiffs' tenancies on Crescent Bar beyond June 1, 2012. The underlying facts are as follows:

a. In 1955, the Federal Power Commission, now the Federal Energy Regulatory Commission (FERC) issued a license to Grant County PUD to operate the Priest Rapids Hydroelectric Project on the Columbia River for a term of fifty (50) years until 2005. As licensee, Grant County PUD came to own Crescent Bar.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

b. In 1962, Grant County PUD leased Crescent Bar to the Port of Quincy for a term of fifty (50) years, terminating on June 1, 2012. The lease from Grant County PUD to the Port of Quincy specifically provided that the Port of Quincy could not sublease any portion of Crescent Bar for a term in excess of five (5) years without the prior approval of Grant County PUD and further provided that the lease was subject to the terms of Grant County PUD's license from FERC.

c. In 1970, the Port of Quincy subleased a portion of Crescent Bar to Crescent Bar, Inc.'s predecessors-in-interest for a term expiring on April 1, 2012. This sublease is expressly subject to the terms and conditions of the lease between Grant County PUD and the Port of Quincy.

d. On February 8, 1973, the Port of Quincy and Crescent Bar, Inc.'s predecessors-in-interest executed an Amendment of Lease, which, amongst other things, extended the term of Crescent Bar, Inc.'s sublease of Crescent Bar to February 28, 2023. This Amendment to Lease was not approved by Grant County PUD.

e. On March 6, 1973, Grant County PUD and the Port of Quincy signed an Amendment to Lease extending the Port of Quincy's tenancy on Crescent Bar to February 28, 2023, conditioned precedent upon obtaining FERC's consent to such extension.

f. FERC has never consented to the extension of Crescent Bar, Inc.'s lease beyond June 1, 2012.

g. Beginning in the mid-1990's, Grant County PUD commenced work on an application to renew the license to operate the Priest Rapids Hydroelectric Project which expired in 2005. Grant County PUD was ultimately successful in relicensing the project. Grant County PUD now takes the position that as a condition of such relicensing, it may not allow the Plaintiffs to remain on Crescent Bar beyond June 1, 2012.

In December 2011, the Plaintiffs purchased the stock of Crescent Bar, Inc. and directed Crescent Bar, Inc. to file a cross-claim against Grant County PUD and the Port of Quincy alleging that Grant County PUD and the Port of Quincy were in breach of their contractual obligations toward Crescent Bar, Inc.

The Plaintiffs' and Crescent Bar, Inc.'s claims against the Port of Quincy are based upon the breach of contract and breach of due process in violation of RCW 42 U.S.C. § 1983. The Plaintiffs and Crescent Bar, Inc. seek injunctive relief permitting the Plaintiffs to remain on Crescent Bar, Inc. until 2023 or later on, in the alternative, an award of monetary damages.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Port of Quincy does not have the power to grant the Plaintiffs the relief they request. The Port of Quincy does not have any rights in Crescent Bar beyond June 1, 2012 and, therefore, cannot grant to the Plaintiffs and Crescent Bar, Inc. any such rights. There do not appear to be any facts to substantiate that the Plaintiffs and Crescent Bar, Inc. have suffered any damage by reason of breach of contract by the Port of Quincy. Likewise, there do not appear to be any facts to substantiate that the Port of Quincy violated RCW 42 U.S.C. § 1983.

The lawsuit is complex litigation involving facts transpiring over a period of fifty (50) years with multiple defendants and numerous witnesses. It is possible that this litigation could take numerous years to be resolved. Despite the complexities of this litigation, it is the current opinion of the Port of Quincy's attorneys that the Port of Quincy will ultimately prevail in having the Plaintiffs' and Crescent Bar, Inc.'s claims against the Port of Quincy dismissed by pre-trial motion or will prevail at trial.

In May 2012, the Port's books were being audited by the Washington State Department of Revenue for sales and use taxes for the years ended 2008 through 2011. The Port expected to owe $15,000 of tax, which was included in taxes payable for 2011. In 2012, the actual amount paid to the Washington State Department of Revenue was $9,684, therefore the taxes payable were adjusted by $5,316 to reflect the actual amount paid.

NOTE 13 SUBSEQUENT EVENTS

The Port is having ongoing discussions to purchase approximately 80 acres (Lot 1 Huston Short Plat) adjacent to Industrial Park 6, and in June of 2014 placed an option to buy on the land for $20,000.

In August of 2014 the Port purchased a utility easement on the Huston Short Plat property for $223,248. In September of the same year the Port sold non-exclusive access across the property for its purchase price.

In January 2014, the Port purchased land adjacent to Industrial Park 6 for $6,664,228. This land was sold to Microsoft for $7,058,700. The Port carried a contract from Microsoft in the amount of $6,776,352. This contract was paid off by Microsoft on July 16, 2014. In order to facilitate the purchase of land by the Port, it issued a revenue bond in the principal amount of $7,000,000. The bond was purchased by Northwest Farm Credit Services and repaid by the Port on July 29, 2014.

Also in January 2014, the Port sold additional land inside of Industrial Park 6 to Microsoft for $3,985,000. Approximately $2.7 million of the proceeds have been earmarked for redemption of the outstanding general obligation bond.

NOTE 13 SUBSEQUENT EVENTS (CONTINUED)

On March 18, 2014, the Port was awarded a grant from the Washington Department of Transportation, Airport Aid Program in the amount of $56,905 for design and engineering services related to improvements to the airport owned by the Port. The Port applied for and was awarded an additional grant of $227,967 for the completion of the improvements in June of 2014. In October the improvements were completed and closing paperwork is being completed.

On April 23, 2014, the Port entered into a lease with Hashplex, Inc. for ground located in Industrial Park 2. The property will be leased for $3,776 per month. The term of lease is for 3 years and includes an option for Hashplex, Inc. to purchase the land.

On May 14, 2014, the Port entered into a lease with Ancient Lake Winery, LLC for ground located in Industrial Park 5. The property will be leased for $1,363 per month. The term of the lease is one year. A Purchase and Sale Agreement for $184,005 was signed in July, 2014.

The Port sold a one acre parcel located in Industrial Park 4 for $61,500 in October of 2014. A down payment of $9,835 was received and the Port is carrying the remaining balance on a contract for five years.

On March 31, 2014, the Port entered into a lease with Skagit Transportation, Inc. for ground located in Industrial Park 4. Initially the term of the lease was one year with lease payments of $1,900 monthly. In September of 2014 the Port sold the property for $225,100.

In June of 2014 the Port declared the building at 202 G Street SW in Quincy as surplus. It was sold for $90,000. The Port is carrying $85,000 on a long-term contract.

The Port has been working with the City of George (City) through an inter-local agreement to construct a well on Lot 2 of Industrial Park 5 owned by the Port. The Port and City received a SIP grant for $50,000 for development of a binding site plan. In addition the municipalities received a SIP financing package consisting of an $183,000 grant and a $70,000 loan for construction of the well. The Port will be solely responsible for paying back the $70,000 loan. Upon completion of the project the intention is to sell Lot 2, including the well to the City for $40,000.

On August 19, 2014 an agreement was reached between the Port and residents of Crescent Bar Island, as well as several associates comprised of residents from Crescent Bar Island, releasing the Port from further litigation. The Port agreed to pay $50,000 and to return all payments received. The payments have been reported as deferred inflows of resources on the Statements of Net Position. The agreement obtained court approval in November of 2014.

NOTE 13 SUBSEQUENT EVENTS (CONTINUED)

Cold Train:
The Port operates its Intermodal yard through an exclusive arrangement with Cold Train. Cold Train holds a contract with Burlington Northern Santa Fe Railroad (BNSF) allowing it to ship containers from the Intermodal site. In early 2014 Cold Train began having trouble paying the Port for its services and the fuel provided. According to Cold Train this issue was caused due to BNSF changing its service scheduling which shifted delivery from 3 to 7 days, which created additional timing expense for Cold Train.

Cold Train began looking for a partner/buyer, assuring the Port that operations would continue. The Port had full confidence that all outstanding receivables would be collected.

In August BNSF notified the Port that Cold Train had suspended service form the Port's Intermodal site. BNSF assured the Port that they wanted to continue service from the site. BNSF indicated they would consider granting another operator the right to ship from the intermodal site, possibly even the Port itself. The Port was given approval to pursue opportunities to continue operations at its site.

From August through October the Port reclaimed approximately $33,000 worth of fuel from containers at the intermodal site, which was offset to Cold Train's accounts receivable.

Currently the Port is maintaining the yard in order to keep it ready for the time when operations begin again. If the Port is not able to begin service in a reasonable amount of time, there may need to be adjustment to personnel.

Cold Train is significantly behind on payments to the Port. Currently it owes the Port $198,269 for services and fuel provided. In addition, the Port holds a note of $103,418 personally guaranteed by Mike Lerner, owner of Cold Train. The Port is confident that the secured note will be collected but the probability of collecting the unsecured receivables is unknown at this time. The Port has commenced suit against Cold Train for breach of contract, to collect an open account, to collect a promissory note and to enforce a personal guarantee.

While the situation has been frustrating for the Port this will not have a significant impact on the Port's financial position. The Port feels that this service was vital to the agricultural economy in its geographic area, and was striving to develop the intermodal yard into a thriving, profitable gateway.

The Port will continue to negotiate with BNSF to return service to the intermodal site. It is receiving support throughout the state from commodity grower/packer/shippers and legislators.

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