Washington State Auditor's Office

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Financial Statements Audit Report

Port of Anacortes

Skagit County

For the period January 1, 2015 through December 31, 2015

Published May 19, 2016

Report No. 1016650

Washington State Auditor's Office

May 19, 2016

Board of Commissioners
Port of Anacortes
Anacortes, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

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Port of Anacortes
Skagit County
January 1, 2015 through December 31, 2015

Board of Commissioners
Port of Anacortes
Anacortes, 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 Anacortes, Skagit County, Washington, as of and for the year ended December 31, 2015, 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 9, 2016. As discussed in Note 12 to the financial statements, during the year ended December 31, 2015, the Port implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

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

OLYMPIA, WA

May 9, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Anacortes
Skagit County
January 1, 2015 through December 31, 2015

Board of Commissioners
Port of Anacortes
Anacortes, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Anacortes, Skagit County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Anacortes, as of December 31, 2015, 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 13 to the financial statements, in 2015, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 11 through 16 and pension plan information on pages 43 through 44 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 9, 2016 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

OLYMPIA, WA

May 9, 2016

FINANCIAL SECTION

Port of Anacortes
Skagit County
January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015
Statement of Revenues, Expenses and Changes in Net Position – 2015
Statement of Cash Flows – 2015
Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – Schedule of Employer Contributions – 2015

Introduction

The following is the Port of Anacortes' (the Port's) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year ended December 31, 2015, with selected comparative information for the year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Port's financial statements. The Port's financial statements include two components: 1) the Port's basic financial statements, and 2) the notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Port's basic financial statements and can be found following the financial statements of this report.

The basic financial statements include: the *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Fund Net Position* and the *Statement of Cash Flows*.

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

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

Financial Analysis

<u>Condensed Financial Position Information</u>
The *Statement of Net Position* reflects the Port's financial position at year-end. Financial position is represented by the difference between assets owned, deferred outflows and liabilities owed at a specific point in time. The difference between the two is reflected as net position. As previously noted, changes in net position over time can be an indicator of the Port's financial position.

<u>Change in Accounting Principle</u>
In 2015, GASB required implementation of Statement Number 68, which developed standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures relative to state and local government pension plans. This statement requires each participating employer to record their proportionate share of the net pension liability. The net pension liability is: a) the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less b) the amount of the pension plan's fiduciary net position (as determined by the Office of the State Actuary). Implementation of this statement in the Port's 2015 financial statements resulted in the recording of a net pension liability of $1.619 million, deferred outflows of resources of $189,000 and deferred inflows of resources of $284,000.

Financial Highlights

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by $35.874 million (reported as total net position). Despite the recent accounting pronouncement (GASB 68), total net position increased by $514,000 or 1.46% in comparison with the prior year. This increase is primarily due to a very successful year of controlling operating costs, while achieving record-breaking volumes/revenues at the Marine Terminal and the Marina.
- Total assets increased by $1.068 million from 2014, primarily from the result of controlling operating costs and ongoing progress of the Port's Capital Improvement Plan.
- Total liabilities increased approximately $484,000 from 2014 despite pay downs of the Port's revenue and general obligation bond debt by $1.3 million and the payoff of a general facilities charge loan to the City of Anacortes, totaling just over $400,000. This was due to the acquisition of approximately one and a half acres adjacent to the Port's Pier 1 and Curtis Wharf facilities, for $2.2 million via seller financing.

The following condensed financial information provides an overview of the Port's financial position for the fiscal years ended December 31:

NET POSITION

	2015	2014
Current and restricted assets	$ 12,537,944	$ 12,130,409
Capital assets, net	54,667,164	54,100,273
Other noncurrent assets	255,023	161,108
Total Assets	67,460,131	66,391,790
Deferred Outflows of Resources:		
Bond discounts	16,441	22,098
Amount on refunding	205,612	229,451
Deferred amount – GASB 68	188,869	-
Total Deferred Outflows of Resources	410,922	251,549
Current liabilities	4,817,464	5,975,950
Noncurrent liabilities	26,520,287	24,877,907
Total Liabilities	31,337,751	30,853,857
Deferred Inflows of Resources:		
Bond premiums	375,287	429,818
Deferred amount – GASB 68	283,864	-
Total Deferred Inflows of Resources	659,151	429,818
Net Position:		
Invested in capital assets, net of related debt	39,393,460	40,692,914
Restricted net assets	461,131	1,284,342
Unrestricted net assets	(3,980,440)	(6,617,592)
Total Net Position	**$ 35,874,151**	**$ 35,359,664**

<u>Summary of Operations and Changes in Net Position</u>

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

Revenues:

- 2015 was a record-breaking year for prilled sulfur shipments at the Marine Terminal; 82,000 metric tons shipped, a 30% increase over 2014. Petroleum coke shipments were also up 14% over the prior year (total of 294,000 metric tons).
- Total revenues reported at the Marina decreased approximately $538,000 from the prior year, which indicates decreased performance. In reality, this decrease was entirely due to the extremely low prices of gas and diesel throughout all of 2015. The Marina achieved a record-breaking 1 million gallons of fuel sold at its fuel dock, an increase of roughly 8% over the prior year, yet total fuel sales (in terms of dollars) was down over $683,000. Moorage was up roughly 6% over the prior year, and parking, boat launches, gear storage and electricity sales all saw increases, truly making it an outstanding year for Cap Sante Marina.
- The Port experienced stable occupancy at all of its leasehold facilities. Slight market rate increases, acquisition of tenants on newly acquired Quiet Cove property and a more successful attainment of event sponsorships resulted in growth in property rental incomes of approximately 3.5%.
- Total operating revenues increased by approximately $805,000 (5.3%) over 2014 revenues.

Expenses:

- 2015 total operating expenses decreased by approximately $404,000 (2.8%) over 2014 expenses. Operating income, after depreciation, was $1.852 million as of December 31, 2015, compared to $643,000 as of December 31, 2014.

Non-Operating (including Environmental Activity):

- Non-operating revenue for the year ended December 31, 2015 was $636,000 (of which, $500,000 represented taxes levied). Non-operating expense, which is primarily comprised of revenue and general obligation bond interest expense, totaled $585,000 as of year-end. Totals are consistent with prior year.
- Environmental expenses totaled $1.114 million for 2015, due in large part to the completion of the clean-up activities at the Former Shell Tank Farm site. Grants and recoveries related to environmental projects totaled $895,000 for the year.

The table below summarizes the operations and change in net position for fiscal years ending December 31:

	2015	2014
Marine terminal	$ 8,057,696	$ 6,849,157
Marina	7,431,121	7,968,939
Airport	441,893	307,598
Total Operating Revenues	15,930,710	15,125,694
General operations	7,955,663	8,306,974
Facilities	1,214,268	1,154,594
General and administrative	2,713,852	2,835,853
Depreciation	2,195,128	2,185,596
Total Operating Expenses	14,078,911	14,483,017
NET OPERATING INCOME	1,851,799	642,677
Taxes levied	499,981	499,951
Investment income	26,212	35,631
Other income and taxes	110,059	93,941
Interest expense	(585,088)	(555,866)
Total Non-Operating	51,164	73,657
Environmental revenues	894,941	1,443,104
Environmental remediation expense	(1,114,266)	(1,765,634)
GASB 49 costs previously accrued	655,701	(8,264,160)
Total Environmental Activities	436,376	(8,586,690)
CHANGE IN NET ASSETS	2,339,339	(7,870,356)
TOTAL NET POSITION – BEGINNING	35,359,664	42,973,320
Capital grants	-	256,700
Change in accounting principle	(1,824,852)	-
TOTAL NET POSITION – ENDING	**$ 35,874,151**	**$ 35,359,664**

Capital Asset and Debt Administration

Capital Assets

The Port's investment in total capital assets as of December 31, 2015 totaled $54.667 million (net of accumulated depreciation). The Port's investment in capital assets includes land, facilities (structures/buildings), machinery and equipment and construction in progress. The total increase in the Port's investment in capital assets for the current year was $567,000 or 1.05%.

Major capital asset events during 2015 included the following:

- Acquisition of approximately 1.5 acres of property, just east of Quiet Cove for $2.2 million. The property contains two rental homes and historic buildings which house, among other tenants, the Marine Supply & Hardware store. This acquisition expands the "buffer area" around the Port's industrial area encompassing Curtis Wharf, Pier 1 and the Cortland Puget Sound Rope business. The purchase was completed with seller financing and the Port will take access to the western half of the property in November of 2016 and the eastern half of the property (including the Marine Hardware building) in November of 2017.
- Installation of two 1-ton cranes at Cap Sante Marina's commercial "T" dock.

Additional information on the Port's capital assets activity may be found in Note 4 in the *Notes to the Financial Statements.*

Long-Term Debt

Long-term debt (net of current portion and not including environmental remediation) totaled $11.920 million as of December 31, 2015. Of this amount, $10.320 million comprises general obligation debt and the remainder is seller-financed debt for property acquisition. The Port repaid its revenue bond in 2015 and has no operating line(s) of credit. The current portion of long-term debt, including accrued interest payable, totaled $1.879 million and the Port had $605,000 in sinking funds and reserves as required by bond indentures as of year-end.

The net liability for environmental remediation (per GASB Statement No. 49) decreased in 2015 approximately $656,000, from $13.813 million to $13.157 million. The decrease in net liability was primarily attributable to the completion of remediation clean-up activities at the Former Shell Tank Farm site.

Additional information on the Port's long-term debt, including the environmental remediation liability, can be found in Note 9 in the *Notes to the Financial Statements*.

Economic Factors and the 2016 Budget

Economic Factors

- Anacortes, located on Fidalgo Island, is most notably known for the Washington State Ferries system, servicing the San Juan Islands and British Columbia. Thus, it is a popular tourist destination for those visiting the Islands, including recreational boaters. The town has historically been a mecca for commercial fisherman and marine trades, such as yacht building and repair, yacht brokerage firms and whale watching tours. In the 1950's, oil companies built two large refineries (currently operated by Tesoro and Shell Corporations) near town and today, refining remains the largest industry in the area. The Port of Anacortes, with one of eight natural deep water marine terminal facilities in Washington state, its 1,000+ slip marina and its roughly 80 acres of commercial properties, is instrumental to the success and economic development of the community. By leveraging operating revenues, tax dollars, federal and state grant funds and proceeds from bond issuances, the Port continued to invest in critical infrastructure and asset maintenance and improvement, even during the rough economic years between 2007 and 2011. Consequently, as the economy has improved and rebounded, the Port has seen a 42% increase in operating income over the past 5 years. In 2015, operating revenues rose from $15.126 million to $15.931 million, making 2015 the best revenue year in the Port's 90-year history.

- As mentioned above, refining is the largest industry in the area. Two by-products generated as a result of the refining process, petroleum coke and prilled sulfur, are shipped via vessel and barge from the Port's Pier 2 marine terminal facility to customers in Canada and the Asian markets, under multi-year contracts with Shell Puget Sound Refinery and Chemtrade Sulex, Inc. In 2015, the Port saw a 17% increase in overall tonnage, taking the total to just under 377,000 metric tons. Quantities shipped are affected by activity at the local refineries, such as, demand for the products they produce, impurities in the crude oil used in the production of their fuels and "shutdowns" for maintenance and repairs. There were no major maintenance shutdowns in 2015 and despite the low prices in petroleum products, demand for product produced by local refineries was very strong. The Port anticipates a similar year in 2016 and continues to pursue additional export opportunities as the Pier 2 facility operates, on average, at about 43% capacity annually.

- The Port maintains vibrant land-based businesses by providing improved property rentals, ground leases and warehouse space for several large employers, including the Washington State Ferry System, Dakota Creek Industries, Cortland Puget Sound Rope, Transpac Marinas, the Marine Technical Skills Center, Anthony's Restaurant and many other tenants. Occupancy of the Port's leasehold facilities was consistent in 2015, as most tenants are under long-term leases. The Port anticipates changes to the organizational structure in 2016 to introduce a new Director position, responsible for planning, properties and environmental. A major component of this position will be the determination of a real estate planning strategy to attain the highest and best use of Port properties. Acquisitions of property in recent years, including the temporary dog park adjacent to the Marina's north and west basin, Quiet Cove adjacent to Curtis Wharf and the Marine Supply & Hardware property south of Cortland Puget Sound Rope all provide opportunities for economic development and growth and will be an integral part of this strategy.

- The Port continues to manage its environmental remediation obligations under the Focus Fidalgo grant with the Washington State Department of Ecology (DOE). To date, clean-ups have occurred and are significantly completed at the Cap Sante Marine site, the in-water portion of Dakota Creek Shipyard (DCI) and the former Scott Paper Mill Site. In 2015, the Port, in partnership with DOE and Shell Oil Corporation, completed remediation activities of the former Shell Tank Farm site. Also in 2015, the Port completed a planning effort, funded by DOE under an Integrated Planning Grant, to prepare a redevelopment strategy for the recently acquired Quiet Cove property. 2016 will bring post-construction monitoring at the completed sites, in addition to continued planning and testing for remediation efforts at Quiet Cove, the Former Pier 2 Log Haul Out site (also known as "Log Pocket") and the uplands portion of DCI. Critical to the ongoing success of the environmental program is the funding of clean-up activities by the Model Toxics Control Act (MTCA), which is funded by a surcharge or tax assessed on all hazardous materials purchased in Washington state. Revenues from hazardous substance tax collections largely come from petroleum products. Those particular products are in a prolonged period of historically low prices. As a result, revenues are lagging significantly behind the initial forecasts enacted for the 2015-2017 biennium and leaving the MTCA fund balance significantly overdrawn. It is for this reason that the Port of Anacortes is among the many whose requests for additional environmental grants for this biennium have been denied while the DOE works with legislators and the Office of Financial Management to find a solution to these issues. Fortunately, as of year-end, DOE has honored the previously awarded environmental grant funds. As a result, the Port of Anacortes has approximately $3.2 million in "leftover" grant money from the previous awards to keep current environmental efforts continuing. The situation remains very volatile and the Port is staying attentive to developments in the legislature.

2016 Budget

The Port's 2016 operating revenues are forecast at $16.415 million, which is an increase of $484,000 or 3.0% over the 2015 actual operating revenues. This increase is attributed to retaining strong exports of prilled sulfur and petroleum coke cargos, stable occupancy of all Port leasehold facilities and anticipated increased popularity of Cap Sante Marina for multiple vessel rendezvous and guest boaters. 2016 operating expenses are forecast at $15.756 million (after depreciation), which would be a significant increase over 2015's actual operating expenses of $14.079 million. This increase is the result of the Port's focus on deferred repair and maintenance projects at all facilities in 2016 and adjustments to the Port's organizational structure.

The $3.666 million 2016 capital budget represents various improvements across the Port's facilities. Specifically, the Port anticipates completing repairs and relocation of the Pier 2 W-2 dolphin, repairs and improvement to the esplanade near the Marina's north basin restrooms, maintenance dredging of the area around "M", "N" and "O" docks and Phase I of the infrastructure improvements to the north basin parking and RV areas. In addition, preliminary design, planning and permitting efforts are anticipated to continue on the Pier 2 bulkhead wall replacement, Curtis Wharf corrosion repairs and cathodic protection and "A" dock demolition and replacement projects. Finally, security cameras and a backup generator for the Port's Pier 1 facility at the marine terminal will be purchased in 2016 to complete the final phase of the 2014 Department of Homeland Security Grant (with a 25% Port match).

Requests for Information

The Port of Anacortes designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional financial information, please visit our website at www.portofanacortes.com or contact Jill Brownfield, Director of Finance and Administration, 100 Commercial Ave, Anacortes, WA 98221 or via phone at 360-293-3134.

PORT OF ANACORTES
STATEMENT OF NET POSITION
December 31, 2015

ASSETS		
Current Assets		
Cash and cash equivalents	$	9,613,459
Restricted cash and cash equivalents		605,058
Total Cash and Investments		10,218,517
Other Current Assets		
Taxes receivable		7,869
Accounts receivable (net of allowance for uncollectible)		1,707,144
Interest receivable		1,710
Due from other governments		187,207
Fuel inventory		44,707
Prepaid expenses		189,790
Current portion of environmental remediation		181,000
Total Other Current Assets		2,319,427
Total Current Assets		12,537,944
Noncurrent Assets		
Capital Assets Not Being Depreciated		
Land		19,664,530
Construction in progress		833,640
Capital Assets Being Depreciated		
Facilities		66,501,990
Equipment		4,269,647
Less: accumulated depreciation		(36,602,643)
Total Net Capital Assets		54,667,164
Other Noncurrent Assets		
Environmental remediation		255,023
TOTAL ASSETS	**$**	**67,460,131**
DEFERRED OUTFLOWS OF RESOURCES		
Bond discounts		16,441
Amount on refunding		205,612
Deferred amount – GASB 68		188,869
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**410,922**

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

PORT OF ANACORTES
STATEMENT OF NET POSITION
December 31, 2015

LIABILITIES		
Current Liabilities		
Warrants payable	$	182,790
Accounts payable		1,077,175
Accrued liabilities		856,291
Unearned income		210,282
Payables from restricted assets:		
Interest payable		143,927
Current portion of long-term debt		1,735,000
Current portion of environmental remediation		611,999
Total Current Liabilities		4,817,464
Noncurrent Liabilities		
General obligation bonds		10,320,000
Contracts payable		1,600,000
Net pension liability		1,618,704
Environmental remediation		12,981,583
Total Noncurrent Liabilities		26,520,287
TOTAL LIABILITIES	**$**	**31,337,751**
DEFERRED INFLOWS OF RESOURCES		
Bond premiums		375,287
Deferred amount – GASB 68		283,864
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**659,151**
NET POSITION		
Invested in capital assets, net of related debt		39,393,460
Restricted net assets		461,131
Unrestricted net assets		(3,980,440)
TOTAL NET POSITION	**$**	**35,874,151**

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

PORT OF ANACORTES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2015

OPERATING REVENUES	
Marine terminal	$ 8,057,696
Marina	7,431,121
Airport	441,893
Total Operating Revenues	15,930,710
OPERATING EXPENSES	
General operations	7,955,663
Facilities	1,214,268
General and administrative	2,713,852
Depreciation	2,195,128
Total Operating Expenses	14,078,911
OPERATING INCOME	1,851,799
NON-OPERATING REVENUES	
Taxes levied	499,981
Investment income	26,212
Miscellaneous taxes	6,148
Other income	72,172
Gain on disposal of assets	31,739
Total Non-Operating Revenues	636,252
NON-OPERATING EXPENSES	
Interest expense	(585,088)
Total Non-Operating Expenses	(585,088)
ENVIRONMENTAL ACTIVITY	
Environmental revenues	894,941
Environmental remediation expense	(1,114,266)
GASB 49 costs previously accrued	655,701
Total Environmental Activity	436,376
INCREASE IN NET POSITION	2,339,339
NET POSITION – BEGINNING OF PERIOD	35,359,664
CHANGE IN ACCOUNTING PRINCIPLE (NOTE 12)	(1,824,852)
NET POSITION – END OF PERIOD	**$ 35,874,151**

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

PORT OF ANACORTES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 15,290,261
Payments to suppliers	(8,899,658)
Payments to employees	(3,395,329)
Operating grants received	110,561
Net cash provided by operating activities	3,105,835
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Payments for environmental expenses	(1,021,955)
Receipts from environmental grants and settlements	1,921,565
Net cash provided by other non-operating income	37,742
Net cash provided by non-capital financing activities	937,352
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on revenue & general obligation bonds	(1,300,000)
Interest paid on revenue & general obligation bonds	(525,092)
Purchases of capital assets	(829,304)
Principal payments on contracts payable	(452,359)
Interest paid on contracts payable	(107,863)
Proceeds from Build America Bonds subsidy	72,317
Cash received from property taxes	502,201
Net cash (used) by capital and related financing activities	(2,640,100)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net interest earned on investments	25,191
Net cash provided by investing activities	25,191
Net increase in cash and cash equivalents	1,428,278
CASH AND CASH EQUIVALENTS	
Beginning of year	8,790,239
End of year	10,218,517
Increase in cash and cash equivalents	1,428,278

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

PORT OF ANACORTES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	1,851,799
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	2,195,128
(Increase) in accounts receivable	(536,054)
(Increase) in inventory and prepaid expenses	(7,955)
(Decrease) in accounts payable & other current liabilities	(397,083)
Total adjustments	1,254,036
Net cash provided by operating activities	$ 3,105,835

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Anacortes was incorporated in 1926 and operates under the laws of the state of Washington applicable to a public port district as a municipal corporation under the provisions of Chapter 53 of the *Revised Code of Washington* (RCW). The financial statements of the Port of Anacortes 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 government accounting and financial reporting principles.

A. Reporting Entity

The **Port of Anacortes** (hereinafter the Port) is a special purpose municipality providing marine terminal, marina and aviation services fostering economic activity within the district. The Port is supported primarily through user charges, property leases, tariffs and fees.

The Port is independent from other local or state governments and operates within district boundaries which include the northwest corner of Skagit County. It is administered by a five-member Board of Commissioners (the Commission), each of whom is elected to a four-year term. The Commission delegates authority to an Executive Director and administrative staff who conduct the operations of the Port. Skagit County levies and collects taxes and issues warrants for payment of expenditures on the Port's behalf.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The component unit discussed below is included in the district's reporting entity.

Industrial Development Corporation of the Port of Anacortes (IDC), a public corporation established by the Commission in 1982, is authorized to facilitate the issuance of tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the Port. The Corporation may construct and maintain industrial facilities, which it leases, or sells to industrial users. Revenue bonds issued by the Corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they are issued.

The Commission 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 and there were no tax-exempt non-recourse revenue bonds outstanding as of December 31, 2015.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

B. Basis of Accounting and Reporting

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

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

The Port uses the full-accrual basis of accounting, where revenues are recognized when earned and expenses are recognized when incurred. Material capital asset purchases are capitalized and long-term liabilities are reported on the Statement of Net Position.

The Port distinguishes between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and facilities in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for dockage, moorage, lease rents, and services. Operating expenses for the Port include general operations, facilities, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Use of Estimates

The preparation of the Port's 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

D. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

   It is the policy of the Port to invest all temporary cash surpluses. At December 31, 2015, the Port held $10,218,517 in cash and short-term investments. This amount is classified on the Statement of Net Position as cash and investments.

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

2. Receivables

   Taxes receivable consist of property taxes and related interest and penalties (See Note 3). Interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

   Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

   Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established for these items. Allowance for uncollectible amounts consists of the estimated amounts of customer accounts, notes and contracts that will never be collected. Estimated uncollectible amounts for trade receivables are $31,582 as of December 31, 2015.

3. Due from Other Governments

   This account includes amounts due from other governments for grants and entitlements.

4. Fuel Inventory

   Reported fuel inventory is gasoline and diesel fuel held at the Port's marina fuel dock and airport fuel island as of December 31, 2015. Inventory has been valued based on the First In First Out (FIFO) method of accounting, which approximates fair market value.

5. Prepaid Expenses

   Prepaid expenses represent amounts paid in advance for items of future benefit. The amount reported on the Statement of Net Position primarily consists of prepaid insurance for the Port's property and general liability coverage.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

6. Restricted Assets and Liabilities
   These accounts contain resources for construction and debt service. The current portion of related liabilities is shown as Payables from restricted assets in the liabilities section of the Statement of Net Position. Specific debt service requirements are described in Note 8 – Long-Term Liabilities. The restricted assets are composed of the following:

Cash and investments-debt service	$ 605,058
Cash and investments-construction	0
Total	**$ 605,058**

7. Capital Assets and Depreciation
   Capital assets, which include property, facilities, equipment and infrastructure assets, are defined by the Port as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years (See Note 4). Such assets are recorded at acquisition or actual cost if purchased or constructed. Donated capital assets are recorded at historical cost or estimated fair market value at the date of donation.

   Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repair are not capitalized.

   Property, facilities and equipment is depreciated using the straight-line method over estimated useful lives ranging from thee to fifty years.

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

   Vacation pay, which may be accumulated up to a 24 month accrual at the employees anniversary date, is payable upon separation of employment or death. Sick leave may accumulate up to 960 hours, of which fifty percent is payable with a minimum of ten years of service, upon separation of employment or death.

9. Other Accrued Liabilities
   These accounts consist of wage and employee benefit liabilities and leasehold taxes payable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

10. Unearned Income
    This account includes amounts recognized as receivables (assets) but not revenues because the revenue recognition criteria have not been met and consists primarily of customer deposits.

11. Long-Term Debt (See Note 9)

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

13. Deferred Inflows/Outflows of Resources
    In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the Port reports separate sections for these items on the Statement of Net Position. Deferred outflows represent a consumption of net assets that applies to a future period(s); conversely, deferred inflows represent an acquisition of net assets that applies to a future period(s). As of December 31, 2015, the Port recorded deferred outflows of resources and deferred inflows of resources of $410,922 and $659,151, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits
   The Port invests its cash reserves with the Skagit County Treasurer. The Port generally maintains short-term investments in the State Treasurer's Investment Pool. The Port's deposits in the State Treasurer's Investment Pool are secured by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance. In addition, the Pool is subject to annual audits by the Washington State Auditor's Office.

   The Port has also established direct banking services with Skagit Bank. Cash maintained in this account, at times, may exceed federally insured limits. Deposits in excess of federal depository insurance coverage are covered by the PDPC.

NOTE 2 - DEPOSITS AND INVESTMENTS– *continued*

B. Investments

As of December 31, 2015, the Port had the following investments:

		Maturities (in Years)		
Investment	Fair Value	Less than 1	1-5	Total
State Investment Pool	$ 9,145,187	$ 9,145,187	$ -	$ 9,145,187

NOTE 3 - PROPERTY TAXES

The Skagit 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 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 percent of market value
October 31.......... Second installment is due

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

The Port is permitted by law to levy up to $0.45 per $1,000 of assessed valuation for general governmental purposes. 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 2015 was $.090 per $1,000 on an assessed valuation of $5,558,530,933 for a total regular levy of $500,000. In 2014, the regular levy was $500,000.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2015 was as follows:

	Beginning Balance 12/31/2014	Increases	Decreases	Ending Balance 12/31/2015
Capital assets, not being depreciated:				
Land	18,045,048	1,619,482	-	19,664,530
Construction in progress	545,373	753,647	(465,380)	833,640
Total capital assets, not being depreciated:	18,590,421	2,373,129	(465,380)	20,498,170
Capital assets being depreciated:				
Facilities	65,707,195	794,795	-	66,501,990
Machinery and Equipment	4,226,334	59,475	(16,162)	4,269,647
Total capital assets being depreciated:	69,933,529	854,270	(16,162)	70,771,637
Less accumulated depreciation for:				
Facilities	32,268,416	1,834,705	-	34,103,121
Machinery and Equipment	2,155,261	360,423	(16,162)	2,499,522
Total accumulated depreciation	34,423,677	2,195,128	(16,162)	36,602,643
Total capital assets, being depreciated, net	**$35,509,852**	**$(1,340,858)**	**$ -**	**$34,168,994**

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port has active construction projects as of December 31, 2015. These projects include:

PROJECT	AMOUNT SPENT TO DATE
M-N-O Dock Dredging	$ 194,341
A Dock Demo and Replacement	89,915
North Basin In Water Redevelopment	24,440
North Basin Building Esplanade Repair	7,386
Harbormaster's Office Remodel	6,912
Facility Security Improvement	10,760
T Dock	384,380
Cathodic Protection	30,211
Per 2 Bulkhead Replacement	42,575
Pier 2 Dolphin Relocation	42,720
Total Construction In Progress	**$ 833,640**

At year-end the Port had no material unfulfilled commitments with contractors.

NOTE 6 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At December 31, 2015 there have been no material violations of finance related, legal, or contractual provisions.

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans		
Pension liabilities	$	1,618,704
Pension assets	$	-
Deferred outflows of resources	$	188,869
Deferred inflows of resources	$	283,864
Pension expense/expenditures	$	80,661

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

NOTE 7 - PENSION PLANS – *continued*

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

Contributions
The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The Port had no actual contributions to PERS Plan 1 for the year ended December 31, 2015.

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

- With a benefit that is reduced by three percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

<u>Contributions</u>
The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The Port's actual contributions to the plan were $199,736 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation

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

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

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.

- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.

- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS

2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

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

Estimated Rates of Return by Asset Class
Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

NOTE 7 - PENSION PLANS - *continued*

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 1,047,010	$ 859,965	$ 699,124
PERS 2/3	$ 2,218,591	$ 758,739	$ (359,016)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the Port reported a total pension liability of $1,618,704 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$ 859,965
PERS 2/3	$ 758,739

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.017320%	0.016440%	-0.000880%
PERS 2/3	0.022300%	0.021235%	-0.001065%

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

The collective net pension liability was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

NOTE 7 - PENSION PLANS - *continued*

Pension Expense

For the year ended December 31, 2015, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	$ 969
PERS 2/3	$ 79,692

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 47,050
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 46,529	$ -
TOTAL	$ 46,529	$ 47,050

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 80,654	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 202,545
Changes of assumptions	$ 1,222	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ 34,269
Contributions subsequent to the measurement date	$ 60,464	$ -
TOTAL	$ 142,340	$ 236,814

NOTE 7 - PENSION PLANS - *continued*
Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS Plan 2/3
2016	$ 10,079
2017	$ 10,079
2018	$ 10,079
2019	$ 4,032

NOTE 8 - RISK MANAGEMENT
The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, security and natural disasters, as well as regulations and changes in law of federal, state and local governments.

To limit exposure, the Port maintains commercial insurance coverage against most normal hazards. General liability coverage is in effect to a limit of $1 million with a $10,000 deductible. Excess liability coverage is in effect with a limit of $50 million over the first $1 million loss. The Port maintains a separate policy for airport liability with a limit of $10 million combined bodily injury and property damage.

Commercial property coverage currently valuing insured assets at $121,767,701 and with a deductible of $10,000 is in effect. This program includes earthquake, with a limit of $35 million, and flood, with a limit of $50 million. The deductibles are 5% per occurrence subject to a $100,000 minimum for earthquake, $250,000 deductible for flood zones A and V, and $100,000 for all other flood zones. In addition, the Port has coverage for public officials and employment practices liability to a limit of $5,000,000 with a $25,000 deductible and crime (employee dishonesty with faithful performance of duty) to a limit of $2,000,000 with a deductible of $2,500. The Port maintains standard business automobile coverage with a limit of $1 million. The Port is self-insured for unemployment insurance. No reserve for self-insurance has been established, as the potential liability is not material to the financial statements. Cyber coverage is in effect with a Third Party limit of $2,000,000 with a $50,000 deductible.

NOTE 9 - LONG-TERM LIABILITIES

A. Long-Term Debt

The Port issues general obligation and revenue bonds to finance the acquisition or construction of capital assets. Bonded indebtedness has also been entered into in prior years to advance refund several general obligation and revenue bonds.

The general obligation bonds currently outstanding are as follows:

Issue Name and Purpose	Original Amount	Maturity Range	Interest Rate	Amount Outstanding
Limited Tax General Obligation Refunding Bonds, 2009 Purpose: Refunding	3,000,000	9/1/2015 - 9/1/2018	2.75% - 4.00%	2,735,000
Limited Tax General Obligation Bonds, 2010 Purpose: Construction	4,500,000	9/1/2019 - 9/1/2024	4.387% - 4.487%	4,500,000
Limited Tax General Obligation Refunding Bonds, 2012 Purpose: Refunding	5,075,000	9/1/2014 - 9/1/2024	2.75% - 4.00%	4,420,000
Total General Obligation Bonds				**$11,655,000**

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

Year Ended December 31,	Principal	Interest
2016	1,335,000	479,093
2017	1,300,000	441,530
2018	1,345,000	398,020
2019	1,170,000	349,890
2020	1,210,000	300,420
2021-2024	5,295,000	631,957
Total	**$ 11,655,000**	**$ 2,600,910**

There were no outstanding revenue bonds or bond reserves as of December 31, 2015.

In March 2015, the Port purchased approximately 1.5 acres of property, including two single family residences and a cluster of attached historical commercial buildings, for $2.2 million from TS Anacortes Enterprises, LLC under a seller-financed note. The note matures November 30, 2018 and accrues interest at 5% per annum.

NOTE 9 - LONG-TERM LIABILITIES- *continued*

The annual debt service requirements to maturity for the seller-financed note are as follows:

Year Ended December 31,	Principal	Interest
2016	400,000	100,000
2017	600,000	80,000
2018	1,000,000	50,000
Total	**$ 2,000,000**	**$ 230,000**

B. Environmental Remediation Liability

Current and long-term environmental remediation liability totaled $13,593,582 as of December 31, 2015. See Note 11 for further discussion of pollution remediation obligations.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 12/31/2014	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
G.O. bonds payable	$ 12,255,000		(600,000)	$ 11,655,000	$ 1,335,000
Issuance premiums/discounts	167,250		(14,016)	153,234	-
Revenue bonds	700,000		(700,000)	-	-
Issuance premiums/discounts	11,019		(11,019)	-	-
General Facilities Charge Contract	452,360		(452,360)	-	-
Property Acquisition	-	2,000,000		2,000,000	400,000
Environmental remediation	14,692,297		(1,098,715)	13,593,582	611,999
Total long-term liabilities	**$ 28,277,926**	**$ 2,000,000**	**$(2,876,110)**	**$ 27,401,816**	**$ 2,346,999**

NOTE 10 - RESTRICTED COMPONENT OF NET POSITION

The Port's Statement of Net Position reports $461,131 of restricted component of net position, of which $0 is restricted by enabling legislation.

NOTE 11 - 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 and self-insurance reserves are adequate to pay all known or pending claims.

As discussed in Note 9 – Long-Term Liabilities, the Port is contingently liable for repayment of refunded debt.

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

NOTE 12 - POLLUTION REMEDIATION OBLIGATIONS

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

Current and long-term liabilities as of December 31, 2015 totaled $13,593,582. Corresponding receivables that are considered realizable recoveries as of December 31, 2015 totaled $436,023. These calculations are based on current and future estimated costs plus contingency. Because these future potential outlays are material to the Port's financial statements, the Port has established an environmental reserve for pollution remediation obligations. For disclosure of GASB 49 pollution remediation obligations, the Port calculates the probabilities and amounts of expected recoveries on a site by site basis and reduces its gross liability by the expected value of realized and realizable cost recoveries.

NOTE 12 - POLLUTION REMEDIATION OBLIGATIONS - *continued*

Estimated future outlays and related recoveries at December 31 are as follows:

	2016	2017	2018 and Thereafter
Pollution remediation outlays	$ 611,999	$ 508,900	$ 12,472,683
Realizable recoveries	181,000	146,950	108,073
Total Net Outlays	**$ 430,999**	**$ 361,950**	**$ 12,364,610**

Pollution Remediation Obligations

- All six projects are Port-owned properties. As owner of the six properties, the Port may be partially liable for a portion of the costs to remediate contamination on each of these sites. However, the Port has and will continue to actively pursue cost sharing and cost recovery agreements with current and former tenants, former site operators, the Port's former insurance carriers, the tenants' former insurance carriers and granting agencies. The Port has successfully negotiated a number of these agreements.

- At each Site, the Port has been recognized as a "Potentially Liable Party" (PLP) by the State of Washington for the investigation and cleanup of properties owned by the Port.
- All properties will require investigation, and potential remediation, in order to comply with state environmental laws and regulations. In some cases, this work is substantially complete.
- The study and cleanup costs at these six specific sites constitute the Port's known GASB 49 pollution remediation obligations: Cap Sante Marine Site, Dakota Creek Industries Site, Former Scott Paper Mill Site, Former Shell Tank Farm Site, Former Log Haul Out Site and Quiet Cove Site.
- Liabilities are measured at the probability weighted-average of the estimated cost of the construction contract and assume no unexpected change orders.

Cap Sante Marine Site

The Port is owner of the Site and remediation and monitoring at this site was completed in 2010. The Port signed the Consent Decree from Washington State Department of Ecology (DOE) for the work completed in late 2013. The Port expects to spend an additional $213,877 in additional outlays as of December 31, 2015, shared 50% by insurance recoveries and a 50% grant through DOE.

NOTE 12 - POLLUTION REMEDIATION OBLIGATIONS - *continued*

Dakota Creek Industries Site
The Port is owner of the Site and in water remediation has been completed. Groundwater monitoring, partial excavation (if necessary) and capping of the uplands portion of the site are expected to conclude in 2020. Total estimated future outlays for this site as of December 31, 2015 totaled $2,421,228, shared 50% by insurance recoveries and a 50% grant through DOE.

Former Scott Paper Mill Site
The Port is owner of a portion of the Site and remediation commenced in June 2009. Cleanup tasks included excavation and disposal of contaminated soils, dredging and capping and the construction of an offshore structure to stop the ongoing erosion of the shoreline. This project concluded in May 2011. Eelgrass and groundwater monitoring are ongoing as required by DOE and Core of Engineers permits. Total estimated future outlays for long-term monitoring for this site as of December 31, 2015 totaled $172,550, shared by insurance recoveries, Kimberly-Clark and the Port.

Former Shell Tank Farm Site
The Port is owner of the property and remediation commenced in October 2014. Cleanup tasks included excavation and disposal of contaminated soils. Crushed gravel and paved sidewalks reverted the property to its previous use as a parking lot for boat trailers. This project concluded in March 2015. Post-construction monitoring as required by DOE is ongoing. Total estimated future outlays for this site as of December 31, 2015 totaled $159,497 shared 50% by Safeco (Liberty Mutual) and the Port through a 50% grant from DOE.

Former Log Haul-Out Site
The Port is owner of the property and received notification from DOE that it is a Potentially Liable Party (PLP) via a PLP letter received in April 2014. The Port is currently studying the environmental conditions at the site and plans to begin actual remediation activities in late 2019 or early 2020. Total estimated future outlays for this site as of December 31, 2015 totaled $4,012,500 shared 50% by insurance recoveries and 50% through a grant from DOE.

Quiet Cove Site
The Port acquired this site in June of 2013 and received PLP status from DOE in October 2014. Historically, the site had been used for bulk fuel storage. The Port completed a planning effort, funded by DOE under an Integrated Planning Grant, to prepare a redevelopment strategy for the site in 2015. Remediation activities are anticipated to be completed in the next three years. Total estimated future outlays for this site as of December 31, 2015 totaled $9,732,498. As with the other projects, the Port anticipates these costs be shared by former tenants and/or their former insurance policies and DOE grant funds.

<u>NOTE 12 - POLLUTION REMEDIATION OBLIGATIONS</u> - *continued*

The Port evaluates its Pollution Remediation Obligations by updating both forecasts for future outlays as well as recoveries on at least an annual basis, or as events occur that would cause the Port to re-estimate its liability and recovery calculation. An evaluation of those events, such as changes to construction contracts, price of materials and recovery efforts was made as of December 31, 2015. In addition, any adjustments to liabilities are reported as more information becomes available or as projects meet subsequent GASB 49 Recognition Benchmarks. The Port will continue to work with the Department of Ecology and is committed to performing the cleanups, using the goals and objectives defined in the Puget Sound Initiative and expect to have remediation work substantially completed by 2020.

<u>Cost Recoveries</u>
The Port has successfully recovered, and will continue to pursue recoveries, for its investigation, design, cleanup, and monitoring costs. Generally, these recoveries come from four sources:

- Payments from former tenants.
- Payments from historical commercial general liability insurance carriers of the Port and former tenants
- Payments by past site operators

In most instances, the Port has already negotiated the value and/or share of recoverable cleanup costs due from third parties in order to promptly and efficiently share current and future cleanup costs. The Port believes this approach has delivered, and will continue to deliver, a lower cost project that can be managed efficiently while maximizing the environmental benefits. The Port routinely monitors and assesses the likelihood and amounts of cost recoveries and would promptly reduce or decelerate spending as conditions require. The Port estimates $8,269,799 in future expected recoveries that are not yet included on the balance sheet as of December 31, 2015. These amounts consist of estimated future grant reimbursements expected from Department of Ecology, and will be recognized as a receivable as the work is performed.

<u>NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE</u>

In 2015, the Port implemented GASB 68 – *Accounting and Financial Reporting for Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures relative to pensions. The implementation required the recognition of a net pension liability retroactively, causing an adjustment to the Port’s beginning net position. The total adjustment is $1,824,852, which restated the December 31, 2014 Statement of Net Position from $35,359,664 to $33,534,812.

REQUIRED SUPPLEMENTARY INFORMATION – State Sponsored Plans

Port of Anacortes **Schedule of Proportionate Share of the Net Pension Liability** **Public Employees' Retirement System Plan 1** **As of June 30**	**2015**
Employer's proportion of the net pension liability (asset)	0.016440%
Employer’s proportionate share of the net pension liability	$ 859,965
Total	$ 859,965
Employer's covered employee payroll	-
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	59.10%

Port of Anacortes **Schedule Employer Contributions** **Public Employees' Retirement System Plan 1** **As of December 31**	**2015**
Statutorily or contractually required contributions	$ 84,102
Contributions in relation to the statutorily or contractually required contributions	$ (84,102)
Contribution deficiency (excess)	$ -
Covered employer payroll	-
Contributions as a percentage of covered employee payroll	N/A

REQUIRED SUPPLEMENTARY INFORMATION – State Sponsored Plans- *continued*

Port of Anacortes **Schedule of Proportionate Share of the Net Pension Liability** **Public Employees' Retirement System Plan 2/3** **As of June 30**	**2015**
Employer's proportion of the net pension liability (asset)	0.021235%
Employer's proportionate share of the net pension liability	$ 758,739
Total	$ 758,739
Employer's covered employee payroll	$ 1,884,289
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

Port of Anacortes **Schedule Employer Contributions** **Public Employees' Retirement System Plan 2/3** **As of December 31**	**2015**
Statutorily or contractually required contributions	$ 107,712
Contributions in relation to the statutorily or contractually required contributions	$ (107,712)
Contribution deficiency (excess)	$ -
Covered employer payroll	$ 1,940,212
Contributions as a percentage of covered employee payroll	5.55%

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office

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