Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

Port of Skagit County

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

Published September 29, 2016

Report No. 1017659

Washington State Auditor's Office

September 29, 2016

Board of Commissioners
Port of Skagit County
Burlington, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Skagit County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Port of Skagit County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The Port did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

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

Board of Commissioners
Port of Skagit County
Burlington, 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 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 September 23, 2016. As discussed in Note 7 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

September 23, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

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

Board of Commissioners
Port of Skagit County
Burlington, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Skagit County, Skagit County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2015. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 23, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Commissioners
Port of Skagit County
Burlington, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of 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 15.

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 Skagit County, as of December 31, 2015, and the changes in financial position 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 7 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 16 through 22 and pension plan information on pages 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 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 X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 23, 2016

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Introduction

The following is the Port of Skagit County's (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

Condensed Financial Position Information
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.

Change in Accounting Principle
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 $1.446 million, deferred outflows of resources of $201,000 and deferred inflows of resources of $223,000.

Financial Highlights

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by $49.0 million (reported as total net position). Despite the recent accounting pronouncement (GASB 68), total net position increased by $1.0 million or 2.2% in comparison with the prior year. This increase is primarily due to a $1.1 million increase in capital contributions from the prior year ($1.9 million in 2015 versus $800,000 in 2014). 2015 capital contributions included $1.1 million from the Federal Aviation Administration (FAA) for runway improvements. The Port received $412,500 in capital contributions for work on the Northern State facility from a variety of sources, $205,000 to install solar panels on a building at the Bayview Business Park and the remainder on various smaller projects.
- Total assets increased by $1.8 million from 2014, primarily from ongoing progress of the Port's Capital Improvement Plan, which included spending about $1.3 million in 2015 on the runway project and $800,000 on the Northern State facility.
- Total liabilities increased approximately $760,000 from 2014 despite pay downs of the Port's general obligation bond debt by about $1.2 million. This was due in large part to the nearly $1.5 in pension liabilities that was reported in 2015 due to new GASB 68 reporting requirements.

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:	$ 7,893,403	$ 9,130,083
Capital assets, net	57,092,433	54,051,259
Total Assets	$ 64,985,836	$ 63,181,342
Deferred Outflows of Resources:		
Bond discounts	12,321	14,082
Amount on refunding	142,417	150,754
Deferred amount - GASB 68	200,620	-
Total Deferred Outflows of Resources	355,358	164,836
Current liabilities	2,718,570	2,189,187
Noncurrent liabilities	13,005,215	12,774,860
Total Liabilities	15,723,785	14,964,047
Deferred Inflows of Resources:		
Bond premiums	389,277	412,176
Fiber maintenance user charges	10,000	10,000
Deferred amount - GASB 68	222,982	-
Total Deferred Inflows of Resources	622,259	422,176
Net Position:		
Invested in capital assets, net of related debt	44,306,174	40,032,845
Restricted net assets	4,187,514	4,286,279
Unrestricted net assets	501,462	3,640,831
Total Net Position	**$ 48,995,150**	**$ 47,959,955**

Summary of Operations and Changes in Net Position

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:

- The Port experienced stable occupancy at all of its leasehold facilities.
- Total revenues reported at the Marina increased approximately $128,000 from the prior year due to improved performance in permanent moorage (up $70,000, from $1,653,000 to $1,723,000, and at the RV Park (up $68,000, from $461,000 to $529,000).
- Total operating revenues increased by approximately $149,000 (2.9%) over 2014 revenues.

Expenses:

- 2015 total operating expenses increased by approximately $194,000 (3.0%) over 2014 expenses. Operating loss, after depreciation, was $1.464 million for the year ended December 31, 2015, compared to an operating loss, after depreciation, of $1.419 million for the year ended December 31, 2014.

Non-Operating Revenues (Expenses):

- Non-operating revenues for the year ended December 31, 2015 was $2,664,000 (of which $2,059,000 represented taxes levied). Non-operating expense, which is primarily comprised of general obligation bond interest expense, totaled $590,000 as of year-end. Totals are consistent with prior year.
- Environmental expenses totaled $74,000 for 2015, due to the ongoing clean-up activities at the airport (Taxiway F groundwater and wetland monitoring).

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

	2015	2014
Operating Revenues:		
Airport Operations	$ 713,483	$ 710,928
Marina Operations	2,907,272	2,778,928
Property Lease/Rental Operations	1,653,442	1,634,354
General and Administrative	16,128	17,056
Total Operating Revenues	5,290,325	5,141,266
Operating Expenses:		
General Operations	2,439,379	2,414,790
Maintenance	364,236	310,971
General and Administrative	1,749,916	1,793,748
Depreciation	2,200,405	2,040,396
Total Operating Expenses	6,753,936	6,559,905
NET OPERATING INCOME (LOSS)	(1,463,611)	(1,418,639)
Non Operating Income (Expenses):		
Taxes Levied for Capital Improvement	2,058,549	1,849,954
Investment Income	11,446	9,113
Grant Proceeds	291,527	109,303
State Forest and Timber Excise Taxes	240,397	141,475
Other Income and Taxes	48,182	31,393
Interest Expense	(501,453)	(534,883)
Total Non-Operating Income	2,148,648	1,606,355
Environmental Expenses:		
Environmental Remediation Expenses	(1,390)	(1,360)
Change in Remediation Estimate	(72,819)	(50,294)
Total Environmental Expenses	(74,209)	(51,654)
CHANGE IN NET ASSETS	610,828	136,062
TOTAL NET POSITION - BEGINNING	47,959,955	47,165,070
Prior Period Adjustment	(628)	-149327
Capital Contributions	1,885,093	808,150
Change in Accounting Principle	(1,460,098)	0
TOTAL NET POSITION - ENDING	$ 48,995,150	$ 47,959,955

Capital Asset and Debt Administration

Capital Assets

The Port's investment in total net capital assets as of December 31, 2015 totaled $57.1 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 $3.0 million or 5.6%.

Major capital asset expenditures during 2015 included the following:

Project Description	2015 Expenditures
10/28 Taxiway A Rehabilitation	$ 1,277,000
Nothern State Facility	815,000
South Basin Float Rehabilitation	599,000
Gielow Pickles Building Upgrade	427,000

Additional information on the Port's capital assets activity may be found in Notes 4 (Capital Assets and Depreciation) and 5 (Construction in Progress) in the *Notes to the Financial Statements*.

Long-Term Debt

Long-term debt (net of current portion and not including environmental remediation) totaled $11.3 million as of December 31, 2015. Of this amount, $10.745 million comprises general obligation debt and the remainder is seller-financed debt for a building acquisition. The Port paid off its LTGO Bonds, 2008, Series A on December 1, 2015 (original principal amount of $1,530,000). The Port is also scheduled to pay off its LTGO Bonds, 2004 Refunding on December 1, 2016 (original principal amount of $2,050,000).

A one-year, $2 million LTGO Line of Credit with Skagit Bank expired on March 27, 2016. This line of credit is expected to be replaced in May 2016 with a new ten-year, $6 million decreasing line of credit with Skagit Bank, to be used for funding revenue producing capital projects.

The current portion of long-term debt, including accrued interest payable, totaled $1.7 million and the Port had $1.6 million 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) increased in 2015 approximately $46,000, from $66,000 to $112,000. The increase in net liability was primarily attributable to the completion of remediation clean-up activities at the Skagit Regional Airport, Taxiway F, which includes groundwater and wetland monitoring.

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*.

2016 Budget

The Port's 2016 operating revenues are forecast at $5.6 million, which is an increase of $300,000 or 6% over the 2015 actual operating revenues. This increase is attributed to a 3.8% increase in moorage rates at the La Conner Marina and continued strong demand (i.e. low vacancy) for the Port's rental facilities across the board.

The Port's 2016 operating expenses are forecast at $5.1 million, which is an increase of $300,000 or 6% over the prior year's budget.

The 2016 capital budget, as adopted, is $5.0 million. About two-thirds (67%) is for capital improvements and equipment at the Bayview Business Park. 12% is for various paving projects, 8% for airport improvements, 6% for marina improvements, and the remaining 7% for various equipment replacement.

In 2016 the Port budgeted to collect $2,128,000 in property taxes, which is a 3.4% increase over 2015 actual. Property taxes are used for infrastructure, economic growth, safety, community and environmental purposes. 50% of taxes will go towards debt payments, 21% toward projects, 16% for economic opportunity growth, 5% for environmental, 4% for memberships, 3% for community outreach and 1% for training and travel.

.

Requests for Information

The Port of Skagit County 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.portofskagit.com or contact Greg Thramer, Finance Director, 613 North 2nd Street, La Conner, WA 98257 or via phone at 360-466-3118.

PORT OF SKAGIT COUNTY
Statement of Net Position
For the Year Ended December 31, 2015

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents (Note 1)	3,368,754
Restricted Assets	
Cash and cash equivalents (Note 1)	4,187,514
Taxes receivable	61,439
Accounts receivable (net of allowance for uncollectibles)	145,504
Prepaid expenses	130,192
Total Current Assets	7,893,403
NONCURRENT ASSETS:	
Capital Assets not being depreciated (Note 4)	
Land	5,948,725
Construction work in progress	20,532,053
Capital Assets being depreciated (Note 4)	
Buildings	32,144,539
Improvements other than buildings	40,388,496
Machinery and Equipment	3,314,347
Less: Accumulated Depreciation	(45,235,726)
Total Net Capital Assets	57,092,434
Total Noncurrent Assets	57,092,434
TOTAL ASSETS	64,985,837
DEFERRED OUTFLOWS OF RESOURCES:	
Bond Discounts (Note 1)	12,321
Amount on Refunding (Note 1)	142,417
Deferred Outflows - Pension	200,620
Total Deferred Outflows	355,358

See accompanying notes to the financial statements

MCAG No. 1757

PORT OF SKAGIT COUNTY
Statement of Net Position
For the Year Ended December 31, 2015

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:	
Warrants payable	303,278
Accounts payable	370,783
Accrued expenses	299,480
Current portion notes payable	38,340
Current portion of long-term obligations	1,207,500
Customer deposits payable	266,655
Customer Advance Payments	232,534
Total Current Liabilities	2,718,570
NONCURRENT LIABILITIES:	
General Obligation Bonds Payable (Note 9)	10,745,000
Notes Payable (Note 9)	550,880
Environmental remediation (Note 13)	111,940
Pension Liabilities	1,446,059
Employee leave benefits	151,336
Total Noncurrent Liabilities	13,005,215
TOTAL LIABILITIES	15,723,785
DEFERRED INFLOWS OF RESOURCES:	
Bond Premiums (Note 1)	389,277
Fiber Maintenance User Charges (Note 1)	10,000
Deferred Inflows - Pension	222,982
Total Deferred Inflows	622,259
NET POSITION:	
Net Investment in Capital Assets	44,306,175
Restricted for liquidation of long term debts	1,625,403
Restricted for construction of noncurrent assets	2,562,111
Unrestricted Net Position	501,462
TOTAL NET POSITION	48,995,151

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY

Statement of Revenues, Expenses, and Changes in Fund Net Position

For the Year Ended December 31, 2015

REVENUES, EXPENSES AND CHANGES IN NET POSITION	
OPERATING REVENUES:	
Airport operations	$713,483
Marina operations	$2,907,272
Property lease/rental operations	$1,653,442
General and administrative	$16,128
Total Operating Revenues	$5,290,325
OPERATING EXPENSES:	
General operations	$2,439,379
Maintenance	$364,236
General and administrative	$1,749,916
Depreciation (Note 4)	$2,200,405
Total Operating Expenses	$6,753,936
Income (Loss) From Operations	-$1,463,611
NON OPERATING REVENUES (EXPENSES)	
Interest income	$11,446
Taxes levied for:	
Capital improvement (Note 3)	$2,058,549
State forest revenues	$181,130
Timber excise taxes	$59,267
Leasehold Excise Tax	$12,036
Grant proceeds (Note 11)	$291,527
Interest (expense)	-$501,453
Other nonoperating revenues	$50,262
Other nonoperating (expenses)	-$13,512
Loss on disposition of assets	-$604
Environmental Remediation	-$1,390
Change In Remediation Estimate	-$72,819
Total Nonoperating Revenues (Expenses)	$2,074,439
Income (Loss) before capital contributions and prior period adjustments	$610,828
Prior Period Adjustments (Note 14)	-$628
Adjustment to Implement Change in Accounting Principle	-$1,460,098
Capital Contributions (Note 14)	$1,885,093
Net Position - Beginning of Period	$47,959,955
Net Position - End of Period	$48,995,150

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	5,309,882
Cash paid to suppliers for goods/services	(1,432,267)
Cash paid to employees for services	(2,630,142)
Net cash provided by operating activities	**1,247,473**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Cash received for property taxes	2,061,098
Cash received from other taxes and financing fees	626,009
Cash paid for environmental remediation	(28,313)
Net cash provided (used) by non-capital financing activites	**2,658,794**
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(1,532,828)
Interest paid on capital debt	(546,831)
Acquistion and construction of capital assets	(5,137,653)
Capital grants received	2,389,120
Net cash provided by (used in) capital and related financing activities	**(4,828,192)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	13,914
Purchase of investments	(1,613,817)
Proceeds of investments	1,283,688
Net cash provided by investing activities	**(316,215)**
Net increase in cash and cash equivalents	**(1,238,140)**
CASH AND CASH EQUIVALENTS	
Beginning of year	8,794,408
End of Year	**7,556,268**

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2015

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	(1,463,611)
Depreciation	2,200,405
Change in assets and liabilities:	
(Incr)Decr in accounts receivable	17,009
(Incr)Decr in other current assets	6,531
Incr(Decr) in accounts payable	137,389
Incr(Decr) in customer deposits	(5,452)
Incr(Decr) in LET	29,879
Incr(Decr) in other liabilities	325,324
Total Adjustments	2,711,085
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,247,473**

SCHEDULE OF NONCASH ACTIVITIES

Amortized Bond Discount	12,321
Deferred Outflow - Bond Refunding	142,417
Deferred Outflow - Pension	200,620
Deferred Inflow - Bond Premiums	(389,277)
Deferred Inflow - Fiber Maintenance User Chrgs	(10,000)
Deferred Inflow - Pension	(222,982)
TOTAL NONCASH ACTIVITIES	**(266,901)**

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Skagit County was incorporated on November 30, 1964, and operates under the laws of the State of Washington applicable to a Port District. The accounting and reporting policies of the Port conform to generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. In November 2006, GASB approved Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations. In June 2012, GASB approved Statement 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. These and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

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 positon of the Public Employees Retirement System and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

A. Reporting Entity

The Port of Skagit County, a special purpose government, provides a marina, dry boat storage, an airport, and an industrial park and is supported primarily through user charges.

An elected three-member board governs the Port. 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 Skagit (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.

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

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.

B. Basis of Accounting and Presentation

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net position. The reported fund equity (net position) is segregated into invested in capital assets, net of related debt, restricted and unrestricted net position.

Operating statements present increases (revenues and gains) and decreases (expenses and losses) in fund net position. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for building and land rentals and moorage. The Port also recognizes as operating revenue other user fees such as: parking, use of shower and laundry facilities and aircraft tie down fees.

Operating expenses for the Port include: maintenance, utilities, salaries/benefits, general and administrative, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

C. Measurement Focus, Basis of Accounting

1. Proprietary Funds

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Port are property rentals and user fees at the Skagit Regional Airport and La Conner Marina. Operating expenses for the district include the cost of sales and services, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

An annual operating budget is adopted for the general fund on the accrual basis of accounting at the fund level. Budgets for debt service and capital projects are adopted at the fund level as well.

Appropriations for the general fund lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

2. Amending the Budget

The finance director is authorized to transfer budgeted amounts between departments or specific budget line items; however, any revisions that alter the total expenditures of the Port, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Commission.

When the Commission determines that it is in the best interest of the Port to increase or decrease the appropriation for particular departments or budget line items, it may do so by resolution approved by one more than the majority after holding public hearing(s).

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

E. 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.

F. Assets, Liabilities and Net position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2015, the Port held $3,368,754 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as current cash and cash equivalents.

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

2. Short Term Investments

Short term investments are those that are held for one year or less. At December 31, 2015, the Port did not hold any short term investments.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (see Note 3). Accrued interest receivable consists of amounts earned, but not yet collected, on investments at the end of the year. Accounts receivable consists of amounts owed from private individuals or organizations for rents, leases, goods and services, including amounts owed for which billings have not yet been prepared.

4. Prepaid Expenses

These 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*

5. Restricted Assets and Liabilities

These amounts contain resources for construction and/or acquisition of long term assets and debt service. They are reported on the statement of net position as restricted cash and cash equivalents. The current portion of related liabilities are shown as *Current Portion of Long*

Term Obligations and *Payable from Restricted Assets*. Specific debt service reserve requirements are described in Note 7 – Long Term Debt.

The restricted assets are composed of the following:

Cash and Equivalents - Debt Service	$ 1,625,403
Cash and Equivalents - Construction/Acquisition	$ 2,562,111
Total restricted assets	$ 4,187,514

6. 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 useful life of the asset. The costs for normal maintenance and repair are not capitalized.

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

7. Deferred Inflows/Outflows

In 2015, the port recorded deferred inflows of $10,000 and $389,277 which are reported on the liabilities section of the Statement of Net Position under *Deferred Inflows*. The $10,000 Fiber Maintenance deferred inflow resulted from a contractual agreement between the Port of Skagit County and Skagit County requiring payment by Skagit County for future maintenance of the port's fiber system. Revenue will be recognized when expenses are incurred. The $389,277 is a bond premium to be amortized over the life of the bond obligation.

Under the assets section of the Statement of Net Position, the Port recorded Deferred Outflows of $12,321 for unamortized bond discounts to be amortized over the life of the bond obligation and $142,417 for deferred amount on refunding.

8. Current Liabilities

These accounts include amounts owed for outstanding warrants, payables, interest, taxes and contracts. Also included are the deposits being held by the Port from its customers and the current portion of the Port's long term debt.

9. Long-Term Debt See Note 7.

10. 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.

Vacation pay, which may be accumulated up to a maximum of 25 days, is payable upon resignation, retirement, or death. Sick leave may accumulate up to 120 days. Fifty percent of outstanding sick leave is payable upon retirement or death.

11. Other Accrued Liabilities

These accounts consist of wage and employee benefit liabilities and leasehold taxes payable.

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 $355,358 and $622,259, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

DEPOSITS

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

NOTE 3 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The county treasurer distributes collections at the end of each month to the Port. A revaluation of all property is required every six years.

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 when levied, offset by deferred revenue. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. (State law allows for the sale of property for failure to pay taxes.)

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

a. Washington state law (RCW 84.55.010) and the Washington state constitution limit the rate.

b. The Port may also voluntarily levy taxes below the legal limit.
The Port's regular levy for 2015 was $ 0.2268695222 per $1,000 on an assessed valuation of $9,107,507,124 for a total regular levy of $2,066,216. The Port’s regular levy for 2014 was $0.2109944300 per $1,000 on an assessed valuation of $8,839,759,419 for a total regular levy of $1,865,140.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

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

Description	Beginning Balance 1/1/2015	Increases	Decreases	Ending Balance 12/31/2015
Non-Depreciable Assets				
Land	5,948,725	-	-	5,948,725
Construction in Progress	17,165,363	5,441,877	2,075,187	20,532,053
Total Non-Depreciable Assets	23,114,088	5,441,877	2,075,187	26,480,778
Depreciable Assets				
Buildings and Structures	32,144,538	59,337	59,337	32,144,538
Improvements	39,718,773	744,195	74,472	40,388,496
Machinery and Equipment	2,213,108	1,205,771	104,531	3,314,348
Total Depreciable Assets	74,076,419	2,009,303	238,340	75,847,382
Less Accumulated Depreciation:				
Buildings and Structures	15,044,312	842,816	16,318	15,870,810
Improvements	26,694,926	1,368,168	224,675	27,838,419
Machinery and Equipment	1,400,010	238,842	112,355	1,526,497
Total Accumulated Depreciation	43,139,248	2,449,826	353,348	45,235,726
Total Net Capital Assets	54,051,259	5,001,354	1,960,179	57,092,434

NOTE 5 - CONSTRUCTION IN PROGRESS

Construction in Progress represents expenses to date on projects which total $20,532,053. Construction in Progress is composed of the following:

Project	Authorization	Spent to Date 12/31/2015	Remaining Commitment
Port Signage	345,000	288,013	56,987
Northern State	1,372,500	1,037,971	334,529
Pavement Rehab Airport/BBP	86,609	86,308	301
10/28 Taxiway A Rehabilitation	17,218,425	15,445,886	1,772,539
Aircraft Washdown Facility	100,000	37,700	62,300
15426B AP Drive (Flyers) Improvements*	68,228	80,844	(12,616)
Aspen Catamarans*	80,558	85,148	(4,590)
Gielow Pickles Building Upgrade	1,800,000	986,007	813,993
Westar Malting Facility Bldg Upgrades	679,325	445,431	233,894
Impressions Relocation	176,961	176,961	-
Food Lab	630,114	68,842	561,272
11966 Westar Solar (Malting Facility)	280,342	15,625	264,717
Chuckanut Brewery	378,167	282,973	95,194
Buckwheat Mill Facility	69,167	7,435	61,732
BH Binding Site Plan	520,000	49,187	470,813
Marina Dredging	380,000	271,300	108,700
BH Pavement Rehab/Boat Maint Pad	86,609	80,820	5,789
Pre-design Marina Layout*	175,000	198,433	(23,433)
Marina Bank Repair	150,000	65,639	84,361
Land Clearing Lots 34 to 46	425,000	55,290	369,710
Marina Stormwater	27,500	7,299	20,201
South Basin Float Rehab*	746,927	758,941	(12,014)
TOTAL		$ 20,532,053	

*Within executive director authority.

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At December 31, 2015 there have been no 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	$	1,446,059
Pension assets	$	-
Deferred outflows of resources	$	200,620
Deferred inflows of resources	$	222,982
Pension expense/expenditures	$	179,274

State Sponsored Pension Plans

Substantially all 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 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.

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

NOTE 7 - PENSION PLANS - *continued*

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%

* For employees participating in JBM, the contribution rate was 12.26%

The Port's actual contributions to the plan were $74,852 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.

NOTE 7 - PENSION PLANS - *continued*

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

Contributions

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

* For employees participating in JBM, the contribution rate was 15.30%

The Port's actual contributions to the plan were $170,950 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%

<u>NOTE 7 - PENSION PLANS</u> - *continued*

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%	

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	$ 935,303	$ 768,214	$ 624,533
PERS 2/3	$ 1,982,053	$ 677,845	$ (320,739)

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.

NOTE 7 - PENSION PLANS - *continued*

Pension Liabilities (Assets), 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 $1,446,059 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 768,214
PERS 2/3	$ 677,845

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	0.013917%	0.014686%	0.000769%
PERS 2/3	0.017918%	0.018971%	0.001053%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

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

Pension Expense

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

	Pension Expense
PERS 1	$ 89,021
PERS 2/3	$ 90,253

NOTE 7 - PENSION PLANS - ***continued***

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	$ -	$ 42,030
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 40,584	$ -
TOTAL	$ 40,584	$ 42,030

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 72,055	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 180,952
Changes of assumptions	$ 1,092	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 33,882	$ -
Contributions subsequent to the measurement date	$ 53,007	$ -
TOTAL	$ 160,036	$ 180,952

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 2/3
2016	$ 9,965
2017	$ 9,965
2018	$ 9,965
2019	$ 3,986
2020	$
Thereafter	$

NOTE 8 - RISK MANAGEMENT

Port of Skagit is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- $1,000,000 deductible on liability loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $995,000 on a liability loss.
- $250,000 deductible on property loss - the member is responsible for the first $25,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $225,000 on a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is
for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is $10 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

NOTE 8 - RISK MANAGEMENT ***-continued***

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 9 - LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The Port issues general obligation bonds to finance capital improvements to the marina, industrial park and the Skagit Regional Airport. The district is also liable for notes that were entered into for the purchase of storage units located at the La Conner Marina.

The long term portion of general obligation bonds outstanding are as follows:

Date of Issue	Purpose	Original Amount	Interest Rate	Maturity	Amount Outstanding
3/27/2008	Facilities	5,155,000	2.75 - 4.80%	12/31/2027	3,390,000
6/25/2012	Facilities	1,300,000	variable	6/1/2017	975,000
6/25/2012	Facilities	1,350,000	3.00%	1/1/2032	1,080,000
12/27/2012	Marina Imp	2,210,000	3.00 - 4.50%	12/1/2032	2,210,000
12/27/2012	Refunding	2,200,000	1.25 - 3.00%	12/1/2023	1,755,000
12/27/2012	Acquisition	2,030,000	0.40 - 3.00%	12/1/2023	1,335,000
Total General Obligation Bonds					10,745,000

NOTE 9 - LONG-TERM DEBT - *continued*

NOTES PAYABLE

On October 30, 2008 the Port signed a Note Payable for the purchase of storage unit facilities located at the La Conner Marina. The long term portion of Notes Payable outstanding is as follows, this amount is represented as Notes Payable on the statement of net position:

Date of Issue	Original Amount	Interest Rate	Maturity	Amount
10/30/2008	$800,000	6.50%	11/30/2026	$550,879

The annual debt service requirements to maturity for general obligation bonds and notes payable are as follows:
The annual interest on the Skagit State Bank Loan of $1,300,000 is estimated after 2017 because the interest rate is variable and will be adjusted after 6/1/2017. Estimate is based on last known interest payment as of June 2017.

Year Ending	General Obligation		Notes Payable		
December 31	Principal	Interest	Principal	Interest	Total
2016	$ 1,207,500	$ 417,458	$ 38,339	$ 37,170	$ 1,700,467
2017	$ 792,500	$ 378,324	$ 40,907	$ 34,603	$ 1,246,334
2018	$ 807,500	$ 357,103	$ 43,647	$ 31,863	$ 1,240,113
2019	$ 827,500	$ 335,545	$ 46,570	$ 28,940	$ 1,238,555
2020	$ 852,500	$ 308,223	$ 49,689	$ 25,821	$ 1,236,233
2021-2025	$ 4,082,500	$ 1,098,728	$ 303,047	$ 74,502	$ 5,558,777
2026-2030	$ 2,617,500	$ 438,180	$ 67,020	$ 2,198	$ 3,124,898
2031-2035	$ 765,000	$ 46,890	$ -	$ -	$ 811,890

At December 31, 2015, the Port has $1,625,403 available in sinking funds and reserves as required by bond indentures. This amount is reported on the Port's statement of net position as restricted for the liquidation of long term debt.

NOTE 9 - LONG-TERM DEBT - ***continued***

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

Description	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
2004 LTGO Refunding	$ 865,000	$ -	$ 425,000	$ 440,000	$ 440,000
2008 LTGO A,B,C	$ 3,850,000	$ -	$ 225,000	$ 3,625,000	$ 235,000
2012 Skagit LTGO	$ 1,105,000	$ -	$ 65,000	$ 1,040,000	$ 65,000
2012 CERB	$ 1,215,000	$ -	$ 67,500	$ 1,147,500	$ 67,500
2012 LTGO Tax Exempt	$ 2,210,000	$ -	$ -	$ 2,210,000	$ -
2012 LTGO Refunding	$ 2,200,000	$ -	$ 220,000	$ 1,980,000	$ 225,000
2012 LTGO Taxable	$ 1,685,000	$ -	$ 175,000	$ 1,510,000	$ 175,000
2008 Notes Payable	$ 625,152	$ -	$ 35,933	$ 589,219	$ 38,339
Employee Leave Benefits	$ 159,732	$ 6,025	$ 14,421	$ 151,336	$ -
Environmental Remediation	$ 66,044	$ 72,819	$ 26,923	$ 111,940	$ -
Pension Liability	$ -	$ 1,446,059	$ -	$ 1,446,059	$ -
Total Long-Term Liabilities	$ 13,980,928	$ 1,524,903	$ 1,254,777	$ 14,251,054	$ 1,245,839

NOTE 10 - CONTINGENCIES AND LITIGATION

On March 26, 2013 the port was served a complaint regarding an alleged personnel matter. It is the port's practice to record in its financial statements all material liabilities management believes it is probable the port will have to make payment. On February 11, 2015 the case was settled. The port did not incur material out of pocket costs nor future liability.

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 expenses disallowed under the terms of the grants. Management believes that such disallowance, if any, will be immaterial.

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

The Port's statement of net position reports $4,187,514 of restricted component of net position, of which $1,625,403 is restricted by debt covenants and $2,562,111 is restricted by bond covenants.

NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 13 – LONG TERM LIABILITY - POLLUTION REMEDIATION OBLIGATIONS

A. Nature, Scope, and Source of Pollution Remediation Obligations

The remediation site is located adjacent to Taxiway F near the western edge of the Skagit Regional Airport in Burlington Washington. The area consists of a paved taxiway, a hangar/storage building and nearby undeveloped areas. In 1978, the Port leased the portion of the remediation site, immediately adjacent to the taxiway, to a series of individuals and companies engaged in the crop dusting business. As part of the crop dusting operations, the hangar/storage building was constructed on the site to be used for aircraft parking and material storage, including storage of chemicals used for crop dusting. The chemicals included pesticides, herbicides and fungicides. In 2000, the Port discovered stained soils at the site and began the process of soil and groundwater sampling to determine the extent of site contamination.

In 2004, the Port entered into the Voluntary Cleanup Program with the Department of Ecology. From 2006-2008, the Port conducted an internal remediation investigation/feasibility study and developed it's own cleanup action plan. The Port's internal investigation documented the presence of pesticides and fungicides.

The Port exited the Voluntary Cleanup Program in February 2009 and on April 10, 2009 entered an Agreed Order with the Department of Ecology. The site will be clean up action was completed under a Consent Decree with the Department of Ecology in 2012. Four rounds of compliance monitoring were completed in 2013. Compliance monitoring continued in 2014 and 2015, and will continue in 2016 and future years.

B. Amount of Estimated Liability

The initial estimated liability recorded in 2008 for implementation of GASB 49 was $2.8 million. GASB 49 requires estimates of pollution remediation liabilities to be adjusted when benchmarks are met or when new information indicates changes in estimated outlays. Based on expected outlays for clean up of the remediation site as of 12/31/09, the probability analysis prepared by the Port's engineering firm, estimated the actual costs of clean up to range from $700,129 to $2,800,516 for an average of $1,750,323. The updated estimate reduced the Port's remediation liability in 2009 by $222,217. As of 12/31/2010, estimated outlays ranged from $1,668,262 to $3,574,848 for an average of $2,621,555. The updated estimate increased the Port's remediation liability in 2010 by $871,231. As of 12/31/2011, estimated outlays ranged from $257,000 to $237,650 for an average of $247,450. The updated estimate decreased the Port's remediation liability in 2011 by $1,501,584. As of 2012, estimated outlays ranged from $62,540 to $101,100 for an average of $81,820. As of 12/31/2012, the ending balance of the Port's remediation liability was $88,043 which is within range of the average, therefore no changes were made to the liability estimate. As of 12/31/13, the port's updated remediation liability estimate ranges from $71,002 to $190,292 for an average of $90,148 for costs associated with ongoing ground water monitoring. As of 12/31/13, the Port's remediation liability ending balance was $34,630.52 which was adjusted by an additional $55,517 as a result of current estimates. As of 12/31/14, the Port's remediation liability ending balance was $15,750 which was adjusted by an additional $50,294 as a result of current estimates. As of 12/31/15, the Port's remediation liability ending balance was $39,121 which was adjusted by an additional $72,819 as a result of current estimates. These costs comprise the estimated remaining liability.

NOTE 13 – LONG TERM LIABILITY - POLLUTION REMEDIATION OBLIGATIONS ***- continued***

C. Methods and Assumptions Used for the Estimate

The estimated range for the site cleanup is determined from standard industry engineering figures based on estimated quantities and unit costs. The primary variable in determining the construction cost is the suitability of base materials prior to paving the site. The low cost range reflects less base preparation whereas the high range reflects the likely maximum base preparation. The Port's engineering consultant provided probability estimates which were used in calculating the amount of the liability to be recorded in the financial statements. The Department of Ecology, through the agreed order process, has defined the extent of the cleanup area and level of soil excavation. In 2011, there was a significant decrease in the liability estimate due to a decrease in excavation volume and full accounting of engineering costs, and actual construction costs coming in nearly 50% of the original estimates.

D. Potential for Changes

Annual changes impacting the construction estimate for the remediation liability since its inception are noted in section B above. In 2012, the project was accepted as complete. No changes in the estimate were made in 2012 as the actual remaining liability in the Port's accounting records closely matched the estimate from the Port's engineering firm. In 2013, due to ongoing ground water monitoring costs, the liability is adjusted to reflect future estimated outlays during the monitoring phase of the project which may last 2 to 5 years.

E. Estimated Recoveries

In 2015 the Port received a total of $42,782 in grant proceeds. This amount is included in the non-operating section of the Statement of Revenues, Expenses and Changes in Fund Net position.

NOTE 14 – OTHER DISCLOSURES

A. Capital Contributions

In 2015 the Port received $1,101,023 in capital contributions from the Federal Aviation Administration and $67,380 from the Washington State Department of Transportation, for the 10/28 runway improvement project. All possible reimbursable expenditures were reported to be conservative. The same may be said for the Washington State Department of Transportation Airport Aid Grant BUR-01-10.

The Port received $98,848 from the State of Washington Parks and Recreation Department for a marina pump out replacement and $205,342 from the State of Washington Department of Commerce for solar panels on a building at the Bayview Business Park (malting facility).

The Port received $412,500 in capital contributions for the Northern State facility as follows:

• State of Washington Department of Commerce	$212,500
• Janicki Industries	$100,000
• Skagit County	$ 75,000
• City of Sedro-Woolley	$ 25,000
Total	$412,500

B. Prior Period Adjustment

In 2015 the Port booked a prior period adjustment of $628 as a result of correcting an error to remove a cash account that appropriately belongs to the Port of Skagit County Industrial Development Corporation (IDC).

NOTE 15 – LEASES

The Port leases office equipment under an operating lease. The total cost for such leases was $17,953 for year ended December 31, 2015. The costs under such leases are reported in general and administrative operating expenses on the Statement of Revenues, Expenses and Changes in Net Fund Position.

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

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 expenses/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 $1,460,098, which restated the December 31, 2014 Statement of Net Position from $47,959,955 to $46,499,857.

PORT OF SKAGIT COUNTY
REQUIRED SUPPLEMENTAL INFORMATION TO THE FINANCIAL STATEMENTS
December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION – State Sponsored Plans

Port of Skagit County 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)		0.014686%
Employer’s proportionate share of the net pension liability	$	768,214
Total	$	768,214
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 Skagit County Schedule Employer Contributions Public Employees' Retirement System Plan 1 As of December 31		**2015**
Statutorily or contractually required contributions	$	40,584
Contributions in relation to the statutorily or contractually required contributions	$	(40,584)
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 Skagit County 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)	0.018971%
Employer's proportionate share of the net pension liability	$ 677,845
Total	$ 677,845
Employer's covered employee payroll	$ 1,684,520
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.24%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

Port of Skagit County Schedule Employer Contributions Public Employees' Retirement System Plan 2/3 As of December 31	**2015**
Statutorily or contractually required contributions	$ 53,006
Contributions in relation to the statutorily or contractually required contributions	$ (53,006)
Contribution deficiency (excess)	$ -
Covered employer payroll	$ 1,707,516
Contributions as a percentage of covered employee payroll	3.10%

PORT OF SKAGIT COUNTY
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended December 31, 2015

CFDA #	Federal Agency Name (Optional)	Federal Program Name (Optional)	Pass-Through Agency Name	Other Award I.D. Number	ARRA	Total	Passed Through to Subrecipients	Footnote Ref.
20.106	U.S. Department of Transportation	Airport Improvement Program		3-53-0010-017/18/19/20/21/22		1,151,661		1, 2, 3

The accompanying notes are an integral part of these statements.

Port of Skagit County, Washington
Notes to the Schedule of Expenditures of Federal Awards For
the Year ended December 31, 2015

Note 1 - Basis of Accounting:

This schedule is prepared on the same basis of accounting as the Port of Skagit's financial statements. The Port of Skagit uses accrual basis accounting.

Note 2 - Program Costs:

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Prior Year Expense-

Total prior year expenditures reported on the 2015 SEFA are $2532.40
All expenses are CFDA 20.106.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov