Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Port of Port Townsend

Jefferson County

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

Published January 20, 2015

Report No. 1013461

Washington State Auditor
Troy Kelley

January 20, 2015

Board of Commissioners
Port of Port Townsend
Port Townsend, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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Port of Port Townsend
Jefferson County
January 1, 2012 through December 31, 2013

Board of Commissioners
Port of Port Townsend
Port Townsend, 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 Port Townsend, Jefferson County, Washington, as of and for the years ended December 31, 2013, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated January 14, 2015. As discussed in Note 1 to the financial statements, during the year ended December 31, 2012, the Port implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* As discussed in Note 13 to the financial statements, during the year ended December 31, 2013, the Port implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 14, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Port Townsend
Jefferson County
January 1, 2012 through December 31, 2013

Board of Commissioners
Port of Port Townsend
Port Townsend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Port Townsend, Jefferson County, Washington, as of and for the years ended December 31, 2013, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Port Townsend, as of December 31, 2013, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2012, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* As discussed in Note 13 to the financial statements, in 2013, the Port adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2015 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

January 14, 2015

FINANCIAL SECTION

Port of Port Townsend
Jefferson County
January 1, 2012 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended December 31, 2013 and 2012

INTRODUCTION:
The discussion and analysis of the Port of Port Townsend (the Port) financial performance provides a comparative overview of the Port's financial activities for the fiscal years ended December 31, 2013 and 2012. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Information contained in this MD & A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes to the financial statements.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

The Port of Port Townsend was created in 1924 by a vote of the citizens of the Port District encompassed by Jefferson County. The Port shares the same geographic boundaries as Jefferson County, Washington. The county levies and collects taxes on behalf of the Port. The Port's primary mission is economic development for the citizens of the district and operates under RCW 53.

FINANCIAL HIGHLIGHTS

- In 2013, the Port's overall Operating Revenues were $4,777,349, which was an increase of $247,456 from 2012, and more than budgeted by $167,899. For 2012, Operating Revenues were $4,529,893, an increase of $307,673 from 2011. The revenue swings of the past two years come primarily from the Work Yard & Ship Yard operations as well as the Point Hudson Marina and RV Park, where the level of activity has started to show an increase from the economic down-turn.

- The Port's overall Operating Expenses increased in 2013, to $5,202,138, going up $352,280 from 2012 Operating Expenses, and were $251,476 over budget. For 2012, Operating Expenses were $4,849,858, going up $175,168 from 2011, and were $28,663 over budget.

- In 2013 the Port received $337,626 in total Grant Funds from the Federal Aviation Administration. In 2012 the Port received $120,200 in total Grant Funds from the Federal Aviation Administration. All of these grants are considered to be operating grants and are included in the Statement of Revenues, Expenses, and Changes in Fund Net Position, as Non-Operating Revenues.

- On September 1, 2013, the Port of Port Townsend and the City of Port Townsend finalized a transfer of assets. The Port received two docks, the Union Wharf and City Pier. In exchange the Port gave the City the property known as Kah Tai. The docks had a current value of $2,268,257 and remaining useful lives of 32 and 27 years. The Port had purchased the various lots known as Kah Tai in the 1950's and 1960's. In addition several of the lots were donated to the Port. The cost was determined to be $53,275. This transaction resulted in a gain on non-monetary exchange of $2,214,982

- The Port's 2013 net non-operating income over non-operating expense ended at $2,935,152, which is $2,554,425 ahead of budget, due to the $2,214,982 of gain on non-monetary transaction recorded as a result of the property transfer with the City and the $337,626 in grant revenues. The Port's 2012 net non-operating income over non-operating expense ended at $679,958, which is $308,606 ahead of budget, due to the $120,200 in grant revenues as well as $166,596 for tenant improvements received from the U.S Customs & Border Patrol, plus greater than anticipated Timber Revenues.

- The Port's assets exceeded its liabilities by $18,180,227 (Net Position) as of December 31, 2013. For 2012 Net Position was $15,852,861.

- In May 2013, the Port issued $807,000 in Junior Lien Revenue Bonds to cover a portion of the cost of the new Administration Building. This work started in April 2013 and was completed in September 2013.

- In June 2010, the Port issued L.T.G.O. Bonds for $5,515,000. Approximately $4,570,000 of the proceeds of this issue was used to finance the reconstruction of the A & B Dock portion of the Port Townsend Boat Haven Marina, which was completed and re-opened in February, 2011. The remaining bond funds were used to finance the reconstruction of the 75-ton Travelift haul-out pier. Work on this project started in November 2011, and was completed in September 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Analysis of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position illustrate whether the Port's financial position has improved as a result of the year's activities. The Statement of Net Position presents information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time the increases and 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 reflect how the operating and non-operating activities of the Port affected changes in the net position of the Port. These activities are recorded under the accrual basis of accounting reflecting the timing of the underlying event regardless of the timing of related cash flows.

The Port maintains separate funds of cash as required by certain resolutions or bond covenants. The "one proprietary fund" model is used in this report in compliance with the rules of GASB Statement No. 34, which provide that separately issued debt and separately classified assets are needed in order for a separate fund to exist. None of the Port's separate cash funds meet this definition. Therefore, for purposes of this report all of the Port's transactions are reported in a single fund.

PORT OF PORT TOWNSEND CONDENSED STATEMENT OF NET POSITION

	2013	2012	2011
Current Assets	$2,865,635	$3,309,420	$1,902,940
Restricted Assets	465,839	456,707	2,584,696
Capital Assets	28,740,397	25,738,712	25,388,819
Other Assets		182,999	151,882
Total Assets	**32,071,872**	**29,687,838**	**30,028,337**
Deferred Outflows	**58,588**		
Current Liabilities	1,942,642	1,729,422	1,632,300
Noncurrent Liabilities	12,007,593	12,105,554	12,903,167
Total Liabilities	**13,950,234**	**13,834,976**	**14,535,467**
Net Investment in Capital Assets	16,022,073	13,131,204	11,840,335
Restricted by Bond Covenants	465,839	456,707	1,545,482
Unrestricted	1,692,315	2,264,951	2,107,053
Total Net Position	**18,180,227**	**15,852,861**	**15,492,870**
Total Liabilities and Net Position	**$32,130,461**	**$29,603,676**	**$30,028,337**

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2013, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $2,526,785, in 2013, for a total of $18,180,227. Of this amount $16,022,073 reflects the Port's investment in capital assets, net of related debt. This equals 88% of the Port's total Net Position. In 2012, Net Position increased by $359,991 to a total of $15,852,861.

The Port maintained Capital Assets of $28,740,397, net of accumulated depreciation, as of December 31, 2013. The net book value of the assets increased by $3,001,685 in 2013 as a result of investments in new capital assets, the property transfer with the City as well as construction in progress, offset by depreciation charged against revenue in the year. In 2012 the net book value of the assets increased by $349,893 to $25,738,712.

The Port's total current liabilities increased by $213,222 in 2013. Current liabilities include payments for expenses already incurred, customer deposits, accrued interest on the Port's bonds, and the principal amount of the bond payments due in 2014. In 2012 current liabilities increased by $97,122 over 2011.

The Port's noncurrent liabilities decreased by $97,961 in 2013. The Port made principal payments of $909,906 on its outstanding bonds. General Obligation bonds outstanding at December 31, 2013 were $9,944,148, a decrease of $482,428 from the prior year. Revenue bonds outstanding at December 31, 2013 were $1,707,724. This is an increase of $444,738 from the prior year due to the issuance of $807,000 in new Revenue bonds. (See Note 8 to the Financial Statements). In 2012, noncurrent liabilities decreased by $797,613 from 2011, as the Port made principal payments of $861,082 on its outstanding bonds.

PORT OF PORT TOWNSEND CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	2013	2012	2011
Revenues			
Operating Revenues			
Airport	$128,478	$127,417	$119,241
Marina & Work/Ship Yard	$3,744,367	$3,556,882	$3,274,455
Property Lease & Rental	$904,504	$845,594	$828,524
Total Operating Revenues	$4,777,349	$4,529,893	$4,222,220
Non-Operating Revenues			
Investment Income	13,377	14,542	20,169
Property Tax Levied	884,622	877,783	870,581
Grants	337,626	120,200	229,324
Other Taxes	53,701	67,166	102,696
Other Non-Operating Revenue	18,084	185,029	19,400
Gain on Disposition of Assets	2,214,982	0	0
Total Non-Op Revenues	3,522,392	1,264,720	1,242,170
Total Revenues	8,299,741	5,794,613	5,464,390
Expenses			
Operating Expenses			
General operations	2,641,815	2,500,665	2,454,164
Maintenance	171,134	157,912	218,738
Administration & General	980,874	874,205	714,548
Depreciation	1,408,315	1,317,076	1,287,240
Total Operating Expenses	5,202,138	4,849,858	4,674,690
Non-Operating Expenses			
Interest Charges	561,813	583,046	613,092
Election Expense	16,438	0	6,987
Other Non-Operating Expenses	8,988	1,717	2,595
Total Non-Operating Expenses	587,239	584,763	622,674
Total Expenses	5,789,377	5,434,621	5,297,364
Change in Net Position	2,510,362	359,992	167,026
Net Position – Beginning	15,852,862	15,492,870	15,325,844
Change in Accounting Principal	(182,999)		
Net Position - Ending	18,180,227	15,852,862	15,492,870

While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. The Port's total Operating Revenues for 2013 increased by $247,456

or 5% over 2012, primarily from increased activity in Marina and Yard operations. There was a slight increase due to additional property leases established in 2013 as well. In 2012 Operating Revenues increased by $307,673 or 7% over 2011. Property lease and rentals continue to remain fairly static.
Total Operating Expenses increased by $352,280 or 7% in 2013, primarily from increases in staff costs. 2012 expenses increased by $175,168 or 4% from 2011.

Total Non-operating results for 2013, increased by $2,255,196 which represents an increase in property tax, gain on disposition of assets and grant revenues, offset by a decrease in investment income, timber taxes and debt service. For 2012, non-operating results increased by $60,461, which represented an increase in tax receipts and other non-operating income, offset by a decrease in investment income, timber taxes and debt service.

All of the functions of the Port are considered in the numbers shown on the previous page, including the cost of general government of the Port District. Since the Port is a Special Purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance, and public meeting expenses. All of these expenses of the Port are reported in the Proprietary Fund. The "one fund" model is used in compliance with the rules of GASB 34 which state that separately issued debt and separately issued classified assets are needed in order for a separate fund to exist. Most of these governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports.

PROGRAM IMPACTS

There are several major program impacts facing the Port that could result in material changes in its financial position in the long term. Among those issues are:

- In 2010, the Port Commission completed and adopted a Strategic Plan Document to help set Port-wide priorities and gain community support while dealing with the current long list of envisioned capital projects currently facing the Port, which will require considerable more funds than the Port projects will be available. The plan incorporates the philosophy of the triple bottom line – that all programs/projects must be environmentally, socially, and economically sound.

- Ongoing repair and maintenance costs have continued to escalate on the aging Port Townsend Boat Haven (PTBH) Marina. In the fall of 2010, the A & B Dock portions of the marina were replaced, using Bond funds as described in the Financial Highlights sections of this MD&A. However, the remaining portions of the marina, including the Commercial Dock and the C & D Docks, are currently not envisioned for complete replacement, for at least another ten years. To help extend the life of the remaining docks, renovation work was performed for the Commercial Basin in 2013. Additionally, the 75-ton travelift pier was replaced, also with financing from the 2010 Bond proceeds, in 2012. These projects will produce very little, if any new revenues, to service the debt, therefore, the operating rates charged for these services will need to be increased more dramatically in coming years, than they have been in recent years, in order to keep up with the increasing operating costs.

- The Port of Port Townsend owns and operates a work yard and ship yard, where vessel owners and marine trades vendors may work on the vessels. In 2006, the State of Washington issued a new boatyard permit, which requires boatyards to meet very strict waste water discharge benchmarks. The Department of Ecology continues to review and revise the permit, with the intent of further reducing discharge limits. The Port was not able to consistently meet the benchmarks, so in 2010 the Port used a Washington State Department of Ecology Grant, to install a state-of-the-art storm water treatment system, in an attempt to meet the new benchmarks. This new system became operational in late 2010. Continued improvements, testing, and monitoring will be required as a normal part of business, to determine if the Port can continue to meet the new and increasingly-stricter benchmarks.

- In May 2013 the Port issued $807,000 of Junior Lien Revenue Bonds. These bond funds were used to help fund the new administration building at the boat haven. The prior administration building has been leased out. The project started in March 2013 and was completed in September 2013.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Amy Khile, Director of Finance and Administration, at the Port of Port Townsend, 2701 Jefferson Street, P. O. Box 1180, Port Townsend, WA 98368, or by telephone at 360-385-0656, or by e-mail to amy@portofpt.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended December 31, 2012 and 2011

INTRODUCTION:
The discussion and analysis of the Port of Port Townsend (the Port) financial performance provides a comparative overview of the Port's financial activities for the fiscal years ended December 31, 2012 and 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Information contained in this MD & A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes to the financial statements.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

The Port of Port Townsend was created in 1925 by a vote of the citizens of the Port District encompassed by Jefferson County. The Port shares the same geographic boundaries as Jefferson County, Washington. The county levies and collects taxes on behalf of the Port. The Port's primary mission is economic development for the citizens of the district.

FINANCIAL HIGHLIGHTS

- In 2012, the Port's overall Operating Revenues were $4,529,893, which was an increase of $307,673 from 2011, and more than budgeted by $38,753. For 2011, Operating Revenues were $4,222,220, an increase of $233,440 from 2010. The revenue swings of the past two years come primarily from the Work Yard & Ship Yard operations, where the level of activity has started to show an increase from the economic down-turn.

- The Port's overall Operating Expenses increased in 2012, to $4,849,858, going up $175,168 from 2011 Operating Expenses, and were $28,663 over budget. For 2011, Operating Expenses were $4,674,690, going up $166,140 from 2010, and were $53,040 over budget.

- In 2012 the Port received $120,200 in total Grant Funds from the Federal Aviation Administration. In 2011 the Port received $229,324 in total Grant Funds. $105,018 from the Federal Aviation Administration, $56,000 from the Federal Department of Commerce, $55,139 from the Washington State Department of Ecology, and $13,167 from the Washington State Parks Department. All of these grants are considered to be operating grants and therefore are included in the Statement of Revenues, Expenses, and Changes in Fund Net Position, as Non-Operating Revenues. These funds were all used for the construction and acquisition of additional Fixed Assets of the Port.

- The Port's 2012 net non-operating income over non-operating expense ended at $679,958, which is $308,606 ahead of budget, due to the $120,200 in grant revenues as well as

$166,596 for tenant improvements received from the U.S Customs & Border Patrol, plus greater than anticipated Timber Revenues. For 2011 net non-operating was $619,496 which was $313,833 better than budget, due mainly to the $229,324 in grant revenues, plus greater than anticipated Timber Revenues.

- The Port's assets exceeded its liabilities by $15,852,861 (Net Position) as of December 31, 2012. For 2011 Net Position was $15,492,870.

- In June 2010, the Port issued L.T.G.O. Bonds for $5,515,000. Approximately $4,570,000 of the proceeds of this issue was used to finance the reconstruction of the A & B Dock portion of the Port Townsend Boat Haven Marina, which was completed and re-opened in February, 2011. The remaining bond funds were used to finance the reconstruction of the 75-ton Travelift haul-out pier. Work on this project started in November 2011, and was completed in September 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Analysis of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position illustrate whether the Port's financial position has improved as a result of the year's activities. The Statement of Net Position presents information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time the increases and 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 reflect how the operating and non-operating activities of the Port affected changes in the net position of the Port. These activities are recorded under the accrual basis of accounting reflecting the timing of the underlying event regardless of the timing of related cash flows.

The Port maintains separate funds of cash as required by certain resolutions or bond covenants. The "one proprietary fund" model is used in this report in compliance with the rules of GASB Statement No. 34, which provide that separately issued debt and separately classified assets are needed in order for a separate fund to exist. None of the Port's separate cash funds meet this definition. Therefore, for purposes of this report all of the Port's transactions are reported in a single fund.

PORT OF PORT TOWNSEND CONDENSED STATEMENT OF NET POSITION

	2012	2011	2010
Current Assets	$3,309,420	$2,942,154	$1,952,980
Restricted Assets	456,707	1,545,482	3,670,644
Capital Assets	25,738,712	25,388,819	24,864,451
Other Noncurrent Assets	182,999	151,882	182,605
Total Assets	**29,687,838**	**30,028,337**	**30,670,680**
Current Liabilities	1,729,576	1,632,300	1,596,828
Noncurrent Liabilities	12,105,554	12,903,167	13,748,008
Total Liabilities	**13,834,976**	**14,535,467**	**15,344,836**
Net Investment in Capital Assets	13,000,314	11,840,335	10,398,697
Restricted by Bond Covenants	456,707	1,545,482	2,728,124
Unrestricted	2,395,841	2,107,053	2,199,023
Total Net Position	**15,852,861**	**15,492,870**	**15,325,844**
Total Liabilities and Net Position	**$29,687,837**	**$30,028,337**	**$30,670,680**

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2012, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $359,991, in 2012, for a total of $15,852,861. Of this amount $13,000,314 reflects the Port's investment in capital assets, net of related debt. This equals 82% of the Port's total Net Position. In 2011, Net Position increased by $167,026 to a total of $15,492,870.

The Port maintained Capital Assets of $25,738,711, net of accumulated depreciation, as of December 31, 2012. The net book value of the assets increased by $349,892 in 2012 as a result of investments in new capital assets, including construction in progress, offset by depreciation charged against revenue in the year. In 2011 the net book value of the assets increased by $524,368 to $25,388,819.

The Port's total current liabilities increased by $97,276 in 2012. Current liabilities include payments for expenses already incurred, customer deposits, accrued interest on the Port's bonds, and the principal amount of the bond payments due in 2013. In 2011 current liabilities increased by $35,472 over 2010.

The Port's noncurrent liabilities decreased by $797,613 in 2012, as the Port made principal payments of $861,082 on its outstanding bonds. General Obligation bonds outstanding at December 31, 2012 were $10,426,576, a decrease of $309,424 from the prior year. Revenue bonds outstanding at December 31, 2012 were $1,262,986, a decrease of $437,014 from the prior year. (See Note 8 to the Financial Statements). In 2011, noncurrent liabilities decreased by $844,841 from 2010, as the Port made principal payments of $812,291 on its outstanding bonds.

PORT OF PORT TOWNSEND CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	2012	2011	2010
Revenues			
Operating Revenues			
Airport	$127,417	$119,241	$117,382
Marina & Work/Ship Yard	$3,556,882	$3,274,455	$3,045,195
Property Lease & Rental	$845,594	$828,524	$826,203
Total Operating Revenues	$4,529,893	$4,222,220	$3,988,780
Non-Operating Revenues			
Investment Income	14,542	20,169	30,064
Property Tax Levied	877,783	870,581	852,617
Grants	120,200	229,324	259,543
Other Taxes	67,166	102,696	49,456
Other Non-Operating Revenue	185,029	19,400	18,408
Total Non-Op Revenues	1,264,720	1,242,170	1,210,088
Total Revenues	5,794,613	5,464,390	5,198,868
Expenses			
Operating Expenses			
General operations	2,500,665	2,454,164	2,350,705
Maintenance	157,912	218,738	256,727
Administration & General	874,205	714,548	712,953
Depreciation	1,317,076	1,287,240	1,188,165
Total Operating Expenses	4,849,858	4,674,690	4,508,550
Non-Operating Expenses			
Interest Charges	583,046	613,092	591,285
Election Expense	0	6,987	0
Other Non-Operating Expenses	1,717	2,595	1,943
Total Non-Operating Expenses	584,763	622,674	593,228
Total Expenses	5,434,621	5,297,364	5,101,778
Change in Net Position	359,992	167,026	97,090
Net Position - Beginning	15,492,870	15,325,844	15,228,754
Net Position - Ending	15,852,862	15,492,870	15,325,844

While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. The Port's total Operating Revenues for 2012 increased by $307,673 or 7% over 2011, primarily from increased activity in Marina and Yard operations. In 2011 Operating Revenues increased by $233,440 or 5.9% over 2010. Airport operations, as well as property lease and rentals continue to remain fairly static.

Total Operating Expenses increased by $175,168 or 4% in 2012, primarily from increases in staff costs. 2011 expenses increased by $166,140 or 3.7% from 2010.

Total Non-operating results for 2012, net of grant receipts, increased by $169,586 which represents an increase in property tax revenues and other non-operating income, offset by a decrease in investment income, timber taxes and debt service. For 2011, non-operating results, net of grant receipts, increased by $32,855, which represented an increase in tax receipts, offset by a decrease in investment income and increased debt service.

All of the functions of the Port are considered in the numbers shown on the previous page, including the cost of general government of the Port District. Since the Port is a Special Purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance, and public meeting expenses. All of these expenses of the Port are reported in the Proprietary Fund. The "one fund" model is used in compliance with the rules of GASB 34 which state that separately issued debt and separately issued classified assets are needed in order for a separate fund to exist. Most of these governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports.

PROGRAM IMPACTS

There are several major program impacts facing the Port that could result in material changes in its financial position in the long term. Among those issues are:

- In 2010, the Port Commission completed and adopted a Strategic Plan Document to help set Port-wide priorities and gain community support while dealing with the current long list of envisioned capital projects currently facing the Port, which will require considerable more funds than the Port projects will be available. Additionally, this process was envisioned to help the Port define its mission and to look at where the Port should be headed over the next 5 to 10 years. The plan incorporates the philosophy of the triple bottom line – that all programs/projects must be environmentally, socially, and economically sound.

- Ongoing repair and maintenance costs have continued to escalate on the aging Port Townsend Boat Haven (PTBH) Marina. In the fall of 2010, the A & B Dock portions of the marina were replaced, using Bond funds as described in the Financial Highlights sections of this MD&A. However, the remaining portions of the marina, including the Commercial Dock and the C & D Docks, are currently not envisioned for complete replacement, for at least another ten years. To help extend the life of the remaining docks, renovation work will be performed the Commercial Basin in 2013 and on C & D Docks in 2014. Additionally, the 75-ton travelift pier was replaced, also with financing from the 2010 Bond proceeds, in 2012. These projects will produce very little, if any new revenues, to service the debt, therefore, the operating rates charged for these services will need to be increased more dramatically in coming years, than they have been in recent years, in order to keep up with the increasing operating costs.

- The Port of Port Townsend owns and operates a work yard and ship yard, where vessel owners and marine trades vendors may work on the vessels. In 2006, the State of Washington issued a new boatyard permit, which requires boatyards to meet very strict waste water discharge benchmarks. The Department of Ecology continues to review and revise the permit, with the intent of further reducing discharge limits. The Port was not able to consistently meet the benchmarks, so in 2010 the Port used a Washington State Department of Ecology Grant, to install a state-of-the-art storm water treatment system, in an attempt to meet the new benchmarks. This new system became operational in late 2010. Continued improvements, testing, and monitoring will be required as a normal part of business, to determine if the Port can continue to meet the new and increasingly-stricter benchmarks.

- In May 2013 the Port issued $807,000 of Junior Lien Revenue Bonds. These bond funds are being used to help fund a new administration building at the boat haven. The current administration building has been leased out. The revenue from the leases will pay the debt service. The project started in March 2013 and will be completed by September 2013.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Amy Khile, Director of Finance and Administration, at the Port of Port Townsend, 375 Hudson Street, P. O. Box 1180, Port Townsend, WA 98368, or by telephone at 360-385-0656, or by e-mail to amy@portofpt.com.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2013 and 2012

	2013	2012
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 394,037	$ 359,666
Investments	1,884,904	2,500,499
Accounts Receivable	92,897	93,033
Property Taxes Receivable	27,902	26,712
Interest Receivable	1,746	1,992
Due from Other Governments	304,527	184,690
Inventories	4,238	5,393
Prepaid Expenses	155,384	115,112
Current portion Bond Issue Costs		22,323
Total Current Assets	2,865,635	3,309,420
NONCURRENT ASSETS:		
Restricted Assets		
Investments, CD	465,839	456,707
Total Restricted Cash & Investments	465,839	456,707
Unamortized Bond Issue Costs		182,999
Capital Assets Not Being Depreciated		
Land	2,505,969	2,559,244
Construction in Progress	532,694	325,239
Capital Assets Being Depreciated		
Buildings	7,801,269	6,596,302
Other Improvements	34,131,216	31,098,652
Equipment	3,658,074	3,639,783
Less: Accumulated Depreciation	(19,888,823)	(18,480,508)
Total Noncurrent Assets	29,206,236	26,378,417
TOTAL ASSETS	$ 32,071,872	$ 29,687,838
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	58,588	

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2013 and 2012

	2013	2012
CURRENT LIABILITIES:		
Accounts Payable	$ 616,098	$ 433,681
Contracts Payable	85,663	130,889
Bond Interest Payable	140,787	151,186
Customer Deposits	120,841	108,155
Unearned Revenue	4,212	4,005
Current Portion of Long-Term Debt	975,041	901,506
Total Current Liabilities	1,942,642	1,729,422
NONCURRENT LIABILITIES:		
G.O. Bonds, net of Current Portion	9,944,148	10,426,576
Revenue Bonds, net of Current Portion	1,707,724	1,262,986
Contracts Payable, net of Current Portion	150,000	221,762
Employee Leave Benefits	205,721	194,230
Total Noncurrent Liabilities	12,007,593	12,105,554
Total Liabilities	13,950,234	13,834,976
NET POSITION:		
Invested in Capital Assets, net of Related Debt	16,022,073	13,131,204
Restricted by Bond Covenants	465,839	456,707
Unrestricted Net Assets	1,692,315	2,264,951
TOTAL NET POSITION	18,180,227	15,852,861

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2012 and 2011

	2012	2011
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 359,666	$ 650,422
Investments	2,500,499	2,062,473
Accounts Receivable	93,033	71,148
Property Taxes Receivable	26,712	25,310
Interest Receivable	1,992	4,056
Due from Other Governments	184,690	0
Inventories	5,393	4,753
Prepaid Expenses	115,112	123,992
Current portion Bond Issue Costs	22,323	
Total Current Assets	3,309,420	2,942,154
NONCURRENT ASSETS:		
Restricted Assets		
Investments, State Pool	0	1,099,982
Investments, CD	456,707	445,500
Total Restricted Cash & Investments	456,707	1,545,482
Unamortized Bond Issue Costs	182,999	151,882
Capital Assets Not Being Depreciated		
Land	2,559,244	2,559,244
Construction in Progress	325,239	451,700
Capital Assets Being Depreciated		
Buildings	6,596,302	6,228,915
Other Improvements	31,098,652	29,736,204
Equipment	3,639,783	3,576,188
Less: Accumulated Depreciation	(18,480,508)	(17,163,432)
Total Noncurrent Assets	26,378,417	27,086,182
TOTAL ASSETS	$ 29,687,838	$ 30,028,337

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2012 and 2011

	2012	2011
CURRENT LIABILITIES:		
Accounts Payable	$ 433,681	$ 381,940
Contracts Payable	130,889	110,615
Bond Interest Payable	151,186	160,648
Customer Deposits	108,155	113,028
Unearned Revenue	4,005	4,987
Current Portion of Long-Term Debt	901,506	861,082
Total Current Liabilities	1,729,422	1,632,300
NONCURRENT LIABILITIES:		
G.O. Bonds, net of Current Portion	10,426,576	10,736,000
Revenue Bonds, net of Current Portion	1,262,986	1,700,000
Contracts Payable, net of Current Portion	221,762	292,669
Employee Leave Benefits	194,230	174,498
Total Noncurrent Liabilities	12,105,554	12,903,167
Total Liabilities	13,834,976	14,535,467
NET POSITION:		
Invested in Capital Assets, net of Related Debt	13,000,314	11,840,335
Restricted by Bond Covenants	456,707	1,545,482
Unrestricted Net Assets	2,395,841	2,107,053
TOTAL NET POSITION	15,852,861	15,492,870

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND

Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues:		
Airport Operations	$ 128,478	$ 127,417
Marina, Work Yard, Ship Yard Operations	3,744,367	3,556,882
Property Lease / Rental Operations	904,504	845,594
Total Operating Revenues	4,777,349	4,529,893
Operating Expenses:		
General Operations	2,641,815	2,500,665
Maintenance	171,134	157,912
Administrative	980,874	874,205
Depreciation	1,408,315	1,317,076
Total Operating Expenses	5,202,138	4,849,858
Operating Income	(424,790)	(319,965)
Non-Operating Revenues (Expenses):		
Investment Income	13,377	14,542
Taxes Levied for General Purposes	884,622	877,783
Timber Revenues on State & County Property	46,789	60,188
Grant Receipts	337,626	120,200
Interest Expense	(561,813)	(583,046)
Election Expense	(16,438)	0
Gain on Disposition of Assets	2,214,982	
Other Revenue & Expense - Net	16,007	190,289
Net Nonoperating Revenue (expense)	2,935,152	679,956
Increase in Net Assets	2,510,362	359,991
Net Position - Beginning of Year	15,852,863	15,492,870
Change in Accounting Principle (Note 13)	(182,999)	
Net Position - End of Year	$ 18,180,227	$ 15,852,861

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended Decmeber 31, 2012 and 2011

	2012	2011
Operating Revenues:		
Airport Operations	$ 127,417	$ 119,241
Marina, Work Yard, Ship Yard Operations	3,556,882	3,274,455
Property Lease / Rental Operations	845,594	828,524
General & Administrative	0	0
Total Operating Revenues	4,529,893	4,222,220
Operating Expenses:		
General Operations	2,500,665	2,454,165
Maintenance	157,912	218,825
Administrative	874,205	714,460
Depreciation	1,317,076	1,287,240
Total Operating Expenses	4,849,858	4,674,690
Operating Income	(319,965)	(452,470)
Non-Operating Revenues (Expenses):		
Investment Income	14,542	20,169
Taxes Levied for General Purposes	877,783	870,581
Timber Revenues on State & County Property	60,188	95,670
Grant Receipts	120,200	229,324
Interest Expense	(583,046)	(613,092)
Election Expense	0	(6,987)
Other Revenue & Expense - Net	190,291	23,831
Net Nonoperating Revenue (expense)	679,958	619,496
Increase in Net Assets	359,993	167,026
Net Position - Beginning of Year	15,492,870	15,325,844
Net Position - End of Year	$ 15,852,863	$ 15,492,870

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Cash Flows
For The Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flow From Operating Activities		
Receipts from Customers	$ 4,777,485	$ 4,508,008
Customer Deposits	(12,686)	4,873
Payments to Suppliers	(1,410,246)	(1,446,569)
Payments to Employees	(2,190,323)	(2,014,952)
Net Cash Provided by Operating Activities	1,164,230	1,051,360
Cash Flow From Noncapital Financing Activities		
Proceeds From Property Taxes	883,432	876,381
Proceeds From Miscellaneous Taxes	53,701	67,167
Miscellaneous Receipts/Expense, Net	217,344	264,710
Net Cash Provided by Noncapital Financing Activities	1,154,477	1,208,258
Cash Flow From Capital and Related Financing Activities		
Proceeds from Capital Debt	807,000	0
Purchases and Construction of Capital Assets	(2,231,540)	(1,775,255)
Principal Paid on Capital Debt	(909,906)	(861,082)
Interest Paid on Capital Debt	(572,108)	(592,509)
Debt Issue Costs	(7,000)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,913,553)	(3,228,846)
Cash Flow From Investing Activities		
Interest Earnings	13,623	16,516
Net Cash Provided by Investing Activities	13,623	16,516
Net Increase (Decrease) in Cash	(581,224)	(952,712)
Balance of Cash - Beginning of Year	$ 2,860,165	$ 3,812,877
Balance of Cash - End of Year	$ 2,278,941	$ 2,860,165
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income	$ (424,790)	$ (319,965)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,408,315	1,317,076
Changes in Assets and Liabilities:		
(Increase) decrease Receivables	136	(21,885)
(Increase) decrease Inventories	1,155	(640)
(Increase) decrease Prepaid Expenses	(40,272)	8,880
Increase (decrease) Accounts and Other Payables	219,685	67,894
Net Cash Provided by Operating Activities	$ 1,164,230	$ 1,051,360
Noncash Investing, Capital or Financing Transactions		
Gain on Non-Monetary Exchange of Property	2,214,982	

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Cash Flows
For The Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flow From Operating Activities		
Receipts from Customers	$ 4,526,659	$ 4,164,214
Customer Deposits	(4,873)	274
Payments to Suppliers	(1,452,911)	(1,382,690)
Payments to Employees	(2,019,791)	(1,924,686)
Net Cash Provided by Operating Activities	1,049,084	857,112
Cash Flow From Noncapital Financing Activities		
Proceeds From Property Taxes	876,381	874,065
Proceeds From Miscellaneous Taxes	67,167	102,696
Miscellaneous Receipts/Expense, Net	266,985	230,580
Net Cash Provided by Noncapital Financing Activities	1,210,533	1,207,341
Cash Flow From Capital and Related Financing Activities		
Purchases and Construction of Capital Assets	(1,775,255)	(1,778,766)
Principal Paid on Capital Debt	(861,082)	(812,291)
Interest Paid on Capital Debt	(592,509)	(622,103)
Sale of Capital Asset	0	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,228,845)	(3,213,160)
Cash Flow From Investing Activities		
Interest Earnings	16,516	33,681
Maturity of Investment	0	1,010,000
Net Cash Provided by Investing Activities	16,516	1,043,681
Net Increase (Decrease) in Cash	(952,712)	(105,026)
Balance of Cash - Beginning of Year	$ 3,812,877	$ 3,917,903
Balance of Cash - End of Year	$ 2,860,165	$ 3,812,877

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities

	2012	2011
Operating Income	$ (319,965)	$ (452,470)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,317,076	1,287,240
Changes in Assets and Liabilities:		
(Increase) decrease Receivables	(21,885)	11,052
(Increase) decrease Inventories	(640)	(1,778)
(Increase) decrease Prepaid Expenses	8,880	849
Increase (decrease) Accounts and Other Payables	65,618	12,219
Net Cash Provided by Operating Activities	$ 1,049,084	$ 857,112

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Port Townsend was incorporated in 1924 and operates under the laws of the State of Washington applicable to a port district. The financial statements of The Port of Port Townsend (the Port), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

The Port is a special purpose government and shares the same geographic boundaries as Jefferson County, Washington. The Port is independent from Jefferson County government and is administered by a three member Board of Commissioners elected by Port district voters. The county levies and collects taxes on behalf of the Port.

The Port owns and operates the Port Townsend Marine Industrial Park, the Port Townsend Boat Haven, and the Port Townsend Ship Yard. These contiguous properties provide marina and dock facilities as well as marine related commercial businesses, and ship yard haul out and services to vessels up to 300 tons. The Port also owns and operates the Jefferson County International Airport, a 300 acre general aviation facility located seven miles from Port Townsend, Washington. Adjoining the airport is 25 acres planned for the future development of an industrial park. The Port also owns and operates the 30 acre Point Hudson facility, located at the east end of downtown. This facility offers approximately 4,000 linear feet of boat moorage, 50 recreational vehicles sites, and additional marine related and commercial property rentals. Finally, the Port owns seven additional recreational and water use properties throughout Jefferson County.

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

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

The IDC is governed by the Port's three member Port Commission. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 2701 Jefferson Street in Port Townsend, WA.

B. Basis of Accounting and Presentation

The accounting records of the Port are maintained in accordance with methods prescribed by the Washington 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 their statements of net position. Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate 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. Operating expenses for the Port include the cost of sales and services, labor, administrative expenses and depreciation on capital assets used for the benefit of customers. All revenues and expenses not meeting this definition are reported as non-operating. The Port receives federal and state grants for both capital reimbursement as well as operating grants for specific purposes. Operating grants and related expenses are accounted for as Non-operating Revenues and Expenses while Capital grants are accounted for as Capital Contributions increasing the Net Position of the Port.

C. Assets, Liabilities and Net Position

Cash and Cash Equivalents

It is the policy of the Port to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding $1,884,904 in short-term investments of surplus cash. This amount is classified on the Statement of Net Position as investments. At December 31, 2012 the corresponding investments were $2,500,499.

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.

Short Term Investments- See Note 2, Deposits and Investments.

Receivables

Taxes receivable consists of property taxes and related interest and penalties - See Note 3, Property Tax. Accrued interest receivable consists of amounts earned on investments at the end of the year.

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

Amounts Due From Other Governmental Units

This account includes amounts due from other governments for grants and inter-local agreements.

Inventory

Inventories are valued by the FIFO (first-in first-out) method, which approximates the market value.

Restricted Assets and Liabilities

These accounts contain resources for construction and debt service. The current portion of related liabilities is shown as *Payables from Current Restricted Assets*. Specific debt service reserve requirements are described in Note 8, Long Term Debt and Leases.

The restricted assets are composed of the following:

	2013	2012
Investments -	$ 465,839	$456,707

Capital Assets and Depreciation – See Note 4, *Capital Assets and Depreciation*

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 320 hours is payable upon resignation, retirement or death.

The sick leave policy allows employees to cash out up to 50% of their accrued sick leave hours (based on longevity with the Port), upon termination of employment, and capped at a maximum cash-out of 250 hours.

Unamortized Debt Issuance Costs

Costs relating to the issuance of bonds are deferred and amortized over the lives of the various bond issues.

Other Accrued Liabilities

These accounts consist of accrued business and payroll taxes.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The Port's deposits and certificates of deposit 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).

Investments

The Port's investments, including investments of restricted assets, as of December 31, 2013 and 2012 are as follows:
Washington State Treasurer's Investment Pool, Kitsap Bank – C.D.

$ 1,881,259	2013 - State Investments Pool
$ 465,839	2013 – Kitsap Bank – C.D.
$ 3,646	2013 – US Bank – C.D. (IDC)
$ 2,496,499	2012 - State Investment Pool
$ 456,707	2012 - Kitsap Bank – C.D.
$ 3,644	2012 – US Bank – C.D. (IDC)

All temporary investments are stated at cost, which is equivalent to fair value for these investments.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. None of the Port's investments are held by counterparties.

NOTE 3 – PROPERTY TAXES

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar	
January 1	Tax is 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 tax is recorded as a receivable when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectable tax is established because delinquent taxes are considered fully collectable. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

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

The Port's regular tax levy for 2013 was approximately $ .19 per $1,000 of A.V., on an assessed valuation of $4,648,734,415 for a total regular tax levy of $884,794. In 2012 the levy rate was approximately $ .178 per $1,000 of A.V., on assessed valuation of $4,922,402,055 for a total regular levy of $876,778.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

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

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale or replacement of a significant operating unit or system, the original cost is removed from the Port asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of the Port asset. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

The Port's policy is to capitalize all individual asset additions greater than $1,000 and with an estimated life of more than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of three to fifty years.

On September 1, 2013, the Port of Port Townsend and the City of Port Townsend finalized a transfer of assets. The Port received two docks, the Union Wharf and City Pier. In exchange the Port gave the City the property known as Kah Tai. The docks had a current value of $2,268,257 and remaining useful lives of 32 and 27 years. The Port had purchased the various lots known as Kah Tai in the 1950's and 1960's. In addition several of the lots were donated to the Port. As such the cost was determined to be $53,275. This transaction resulted in a gain on non-monetary exchange of $2,214,982.

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

	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Capital assets, not being depreciated:				
Land	$ 2,559,244	$ --	$53,275	$ 2,505,969
Construction in progress	325,239	1,957,104	1,749,649	532,694
Total capital assets, not being Depreciated	2,884,483	1,957,104	1,802,924	3,038,663
Capital assets, being depreciated:				
Buildings	6,596,302	1,204,967	--	7,801,269
Machinery & equipment	3,639,783	18,291	--	3,658,074
Other Improvements	31,098,652	3,032,564	--	34,131,216
Total capital assets being Depreciated	41,334,737	4,255,822	--	45,590,559
Less accumulated depreciation for:				
Buildings	3,014,417	249,206	--	3,263,623
Machinery & equipment	3,196,156	109,645	--	3,305,801
Other improvements	12,269,939	1,049,464	--	13,319,403
Total accumulated depreciation	18,480,512	1,408,315	--	19,888,827
Total capital assets being Depreciated - net	22,854,225	2,847,507	--	25,701,732
Total capital assets - net	$ 25,738,708	$ 4,804,611	$ 1,802,924	$ 28,740,395

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

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	$ 2,559,244	$ --	$ --	$ 2,559,244
Construction in progress	451,700	1,578,928	1,705,389	325,239
Total capital assets, not being Depreciated	3,010,944	1,578,928	1,705,389	2,884,483
Capital assets, being depreciated:				
Buildings	6,228,915	367,387	--	6,596,302
Machinery & equipment	3,576,188	63,595	--	3,639,783
Other Improvements	29,736,204	1,362,448	--	31,098,652
Total capital assets being Depreciated	39,541,307	1,793,430	--	41,334,737
Less accumulated depreciation for:				
Buildings	2,784,995	229,422	--	3,014,417
Machinery & equipment	3,090,650	105,506	--	3,196,156
Other improvements	11,287,787	982,152	--	12,269,939
Total accumulated depreciation	17,163,432	1,317,080	--	18,480,512
Total capital assets being Depreciated - net	22,377,875	476,350	--	22,854,225
Total capital assets - net	$ 25,388,819	$ 6,428,868	$ 1,705,389	$ 25,738,708

NOTE 5 – CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2013 and 2012. The 2013 projects include Boat Ramp Expansion, Airport Master Plan Update and the Airport Runway Rehab project. The 2012 projects include Boat Ramp Expansion, Commission Office Remodel, Commercial Dock Renovation, New Administration Building, GPS/LPV approach and Airport Master Plan Update.

At year end the Port's commitments with contractors are as follows:

Project	Spent to Date 2013	Remaining Commitment	Spent to Date 2012	Remaining Commitment	Funding Source
JCIA – Runway Rehab Project	$330,619	$ 37,974			FAA Grant – Reserves
JCIA – GPS/LPV Approach			$123 155	$ 12,918	FAA Grant – Reserves
JCIA – Master Plan Update	$162,158	$ 9,369	$133,658	$ 35,520	FAA Grant – Reserves
Total	$492,777	$ 47,343	$256,813	$ 48,438	

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Port is not aware of any issues or material violations of finance-related legal or contractual provisions.

NOTE 7 – PENSION PLANS

Substantially all of the Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

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

Plan Description

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

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

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

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

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

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

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

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

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

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

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

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

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

- With a benefit that is reduced by 3 percent for each year before age 65; or

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

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

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

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

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

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

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

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

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

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

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

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

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

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

Members Not Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ .00	$108,357	$ 13,416
2012	$ .00	$ 86,550	$ 11,919
2011	$ .00	$ 66,430	$ 9,567

NOTE 8 – RISK MANAGEMENT

Port of Port Townsend 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, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

$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 liability loss;
$250,000 deductible on property loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $245,000 on property loss. Enduris is responsible for $0 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

A. Long-Term Debt

The Port issues general obligation and revenue bonds to finance acquisition, purchase or construction of various projects. Bond indebtedness has also been entered into to advance refund general obligation and revenue bonds.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	Amount of Installment
2005 Series – Reconstruction of Point Hudson Marina & upland improvements	2025	3.5%-4.2%	$5,000,000	$20,000-570,000
2006 Series - Refunding of 1997 Series For various capital improvements	2017	3.88%	$1,956,000	$6,000-232,000
2010 Series – Reconstruction of PTBH Marina, Travelift Dock, and related upland improvements	2029	.85%-6.125%	$5,515,000	$115,000-430,000

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

Year Ending December 31	2005 Series Principal	2005 Series Interest	2006 Series Principal	2006 Series Interest	2010 Series Principal	2010 Series Interest*
2014	100,000	181,245	201,000	33,640	175,000	203,337
2015	115,000	177,245	214,000	25,840	205,000	200,095
2016	130,000	172,645	220,000	17,538	230,000	191,895
2017	130,000	167,445	232,000	9,002	260,000	182,695
2018	430,000	162,245	0	0	235,000	207,238
2019-2023	2,430,000	537,794	0	0	1,525,000	869,088
2024-2028	1,115,000	70,498	0	0	1,915,000	476,125
2029	0	0	0	0	430,000	26,338
Total	$4,450,000	$1,469,116	$867,000	$ 86,020	$4,975,000	$2,356,811

* -Interest is net of Build America Bond rebate.

In November 2005, the Port issued L.T.G.O. Bonds for $5,000,000. The majority of the proceeds of this issue were used in 2006 & 2007 to finance the reconstruction project of the Point Hudson Marina, which was substantially completed and re-opened in July, 2007. Additionally, some of the bond proceeds were also used in the renovation of the old Point Hudson Hotel/Hospital Building, into new office space, which was completed in 2006.

In January 2006 the Port issued L.T.G.O. Refunding Bonds for $1,956,000, to advance refund the $1,900,000 callable portion of the 1997 L.T.G.O. Bonds, leaving the non-callable 2006 & 2007 maturities, totaling $280,000, outstanding, and which were all redeemed as of July 1, 2007. The Present Value Savings over the remaining eleven and one-half year bond life, from the date of issue, from this transaction was $111,177.

In June 2010, the Port issued L.T.G.O. Bonds for $5,515,000. Approximately $4,567,000 of the proceeds of this issue were used to finance the reconstruction of the A & B Dock portion of the Port Townsend Boat Haven Marina, which was completed and re-opened in February, 2011. The remaining bond funds were used to finance the reconstruction of the 75-ton Travelift haul-out pier, and some additional related uplands improvements, which was completed in September 2012.

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	Amount of Installment
2005 Series - Refunding of 1996 Series for various capital improvements	2016	3%-5%	$4,455,000	$300,000-455,000
2013 Series – Administration Building	2018	2.45%	$807,000	$197,267-206,278

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

Year Ending December 31	2005 Series		2013 Series	
	Principal	Interest	Principal	Interest
2014	395,000	83,026		17,754
2015	415,000	65,250		17,754
2016	435,000	45,000		17,754
2017	455,000	22,750	397,493	21,251
2018			409,507	9,237
Total	$1,700,000	$ 216,026	$ 807,000	$ 83,750

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds are displayed net of the premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

In March 2005, the Port issued Revenue Refunding Bonds for $4,455,000, to advance refund all of the outstanding 1996 Revenue Bonds, totaling $4,615,000. The Present Value Savings, after all costs, over the remaining twelve year bond life, from the date of issue, from this transaction was $227,296.

In May 2013, the Port issued $807,000 in Revenue Bonds for the construction of the new Administration Building.

The Port's 2005 revenue bond covenants require the Port to maintain a minimum 1.25 coverage ratio requirement. The Port's debt service coverage ratio was 2.04 for December 31, 2013, and 2.16 for December 31, 2012.

The contracts payable currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	Amount of Installment
1997 WA State – CERB Loan – Purchase of 300 Ton Travelift	2017	5.50%	$750,000	$50,000
2005 – WA State Treasurer-LOCAL Program – Purchase of 75 Ton Travelift	2014	4.0602%	$185,000	$7,655-10,991

The annual debt service requirements to maturity for the contracts payable are as follows:

Year Ending December 31	Contracts Payable	
	Principal	Interest
2014	71,763	11,665
2015	50,000	8,250
2016	50,000	5,500
2017	50,000	
Total	$ 221,763	$ 25,415

B. Changes in Noncurrent Liabilities

During the year ended December 31, 2013, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$10,736,000	0	$444,000	$10,292,000	$476,000
Revenue Bonds	1,700,000	807,000	395,000	2,112,000	415,000
Unamortized Premiums	173,548	0	14,527	159,021	14,527
Unamortized Discounts	(10,119)	0	(2,249)	(7,870)	(2,249)
Total Bonds Payable	$12,314,840	807,000	$851,278	$12,555,151	
Contracts Payable	$292,668	0	$70,906	$221,763	$71,763
Compensated Absences	194,230	$11,491	0	205,721	
Claims and Judgments	0			0	
Total Noncurrent Liabilities	$12,801,739	$818,491	$922,184	$12,982,634	$975,041

During the year ended December 31, 2012, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$11,147,000	0	$411,000	$10,736,000	$444,000
Revenue Bonds	2,080,000	0	380,000	1,700,000	395,000
Unamortized Premium	188,075	0	14,527	173,548	14,527
Unamortized Discounts	(12,368)	0	(2,249)	(10,119)	(2,249)
Deferred Amount on Refunding	(99,944)	0	(20,678)	(79,267)	(20,678)
Total Bonds Payable	$13,302,763	0	$782,600	$12,520,162	
Contracts Payable	$362,750	0	$70,082	$292,668	$70,906
Compensated Absences	174,499	$19,732	0	194,230	
Claims and Judgments	0			0	
Total Noncurrent Liabilities	$13,840,956	$19,732	$852,682	$13,007,061	$901,506

NOTE 10 - LEASES

The Port leases a significant portion of airport, industrial and marine terminal land to tenants under operating leases expiring in various years through the year 2053. Minimum future lease payments to be received on operating leases having remaining terms in excess of one year, as of December 31, 2013 for each of the next five years, and in total are:

2014	$ 743,287
2015	589,495
2016	495,585
2017	465,544
2018	396,206
After 2018	4,007,864
Total	$ 6,697,981

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

The Port's statement of net position reports $465,839 and $456,707 of restricted component of net position in 2013 and 2012 respectively. The entire amount for both 2013 and 2012 is restricted by bond covenants.

NOTE 11 – CONTINGENCIES AND LITIGATION

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

As discussed in Note No. 8, the Port is contingently liable for repayment of refunded debt.

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

NOTE 12 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The Port does not have post-employment benefit obligations other than defined pension plans.

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE

In 2013, the Port implemented GASB 65 – Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation required the recognition of outstanding bond issuance costs retroactively causing an adjustment to the Port's beginning net position. The total adjustment is $182,999 which restated December 31, 2012 Statement of Net Position from $15,852,861 to $15,669,862.

In June, 2011, the Government Accounting Standards Board issued GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows on Resources, and Net Position. The objective of this statement is to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The provisions of the guidance will change where the deferred outflows and deferred inflows are presented on the statements of net position. The guidance is effective for years beginning after December 15, 2011. The Port has adopted this guidance for the fiscal year ending December 31, 2012, with no impact on the financial position and results of operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Port Townsend was incorporated in 1925 and operates under the laws of the State of Washington applicable to a port district. The financial statements of The Port of Port Townsend (the Port), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

The Port is a special purpose government and shares the same geographic boundaries as Jefferson County, Washington. The Port is independent from Jefferson County government and is administered by a three member Board of Commissioners elected by Port district voters. The county levies and collects taxes on behalf of the Port.

The Port owns and operates the Port Townsend Marine Industrial Park, the Port Townsend Boat Haven, and the Port Townsend Ship Yard. These contiguous properties provide marina and dock facilities as well as marine related commercial businesses, and ship yard haul out and services to vessels up to 300 tons. The Port also owns and operates the Jefferson County International Airport, a 200 acre general aviation facility located five miles from Port Townsend, Washington. Adjoining the airport is 100 acres planned for the future development of an industrial and office park. The Port also owns and operates the 30 acre Point Hudson facility, located at the east end of downtown. This facility offers approximately 4,000 linear feet of boat moorage, 50 recreational vehicles sites, and additional marine related and commercial property rentals. Finally, the Port owns seven additional recreational and water use properties throughout Jefferson County.

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

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

The IDC is governed by the Port's three member Port Commission. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 375 Hudson Street in Port Townsend, WA.

B. Basis of Accounting and Presentation

The accounting records of the Port are maintained in accordance with methods prescribed by the Washington 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 their statements of net position. Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

The Port distinguishes between operating revenues and expenses from nonoperating 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. Operating expenses for the Port include the cost of sales and services, labor, administrative expenses and depreciation on capital assets used for the benefit of customers. All revenues and expenses not meeting this definition are reported as nonoperating. The Port receives federal and state grants for both capital reimbursement as well as operating grants for specific purposes. Operating grants and related expenses are accounted for as Non-operating Revenues and Expenses while Capital grants are accounted for as Capital Contributions increasing the Net Position of the Port.

C. Assets, Liabilities and Net Position

Cash and Cash Equivalents

It is the policy of the Port to invest all temporary cash surpluses. At December 31, 2012, the treasurer was holding $2,500,499 in short-term investments of surplus cash. This amount is classified on the Statement of Net Position as investments. At December 31, 2011 the corresponding investments were $2,062,473 and restricted investments $1,099,982.

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.

Short Term Investments- See Note 2, Deposits and Investments.

Receivables

Taxes receivable consists of property taxes and related interest and penalties - See Note 3, Property Tax. Accrued interest receivable consists of amounts earned on investments at the end of the year.

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

Amounts Due From Other Governmental Units

This account includes amounts due from other governments for grants and inter-local agreements.

Inventory

Inventories are valued by the FIFO (first-in first-out) method, which approximates the market value.

Restricted Assets and Liabilities

These accounts contain resources for construction and debt service. The current portion of related liabilities is shown as *Payables from Current Restricted Assets*. Specific debt service reserve requirements are described in Note 8, Long Term Debt and Leases.

The restricted assets are composed of the following:

	2012	2011
Investments -	$ 456,707	$1,545,482

Capital Assets and Depreciation – See Note 4, *Capital Assets and Depreciation*

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 320 hours is payable upon resignation, retirement or death.

The sick leave policy allows employees to cash out up to 50% of their accrued sick leave hours (based on longevity with the Port), upon termination of employment, and capped at a maximum cash-out of 250 hours.

Unamortized Debt Issuance Costs

Costs relating to the issuance of bonds are deferred and amortized over the lives of the various bond issues.

Other Accrued Liabilities

These accounts consist of accrued business and payroll taxes.

D. Recent Accounting Pronouncements

In June, 2011, the Government Accounting Standards Board issued GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows on Resources, and Net Position. The objective of this statement is to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The provisions of the guidance will change where the deferred outflows and deferred inflows are presented on the statements of net position. The guidance is effective for years beginning after December 15, 2011. The Port has adopted this guidance for the fiscal year ending December 31, 2012, with no impact on the financial position and results of operations.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The Port's deposits and certificates of deposit 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).

Investments

The Port's investments, including investments of restricted assets, as of December 31, 2012 and 2011 are as follows:
Washington State Treasurer's Investment Pool, Kitsap Bank – C.D.

$ 2,500,499	2012 - State Investments Pool
$ 456,707	2012 – Kitsap Bank – C.D.
$ 3,162,455	2011 - State Investment Pool
$ 445,500	2011 - Columbia Bank – C.D.

All temporary investments are stated at cost, which is equivalent to fair value for these investments.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. None of the Port's investments are held by counterparties.

NOTE 3 – PROPERTY TAXES

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar	
January 1	Tax is 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 tax is recorded as a receivable when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectable tax is established because delinquent taxes are considered fully collectable. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

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

The Port's regular tax levy for 2012 was approximately $ .178 per $1,000 of A.V., on an assessed valuation of $4,922,402,055 for a total regular tax levy of $876,778. In 2011 the levy rate was approximately $ .161 per $1,000 of A.V., on assessed valuation of $5,421,260,420 for a total regular levy of $870,329.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

PORT OF PORT TOWNSEND
Notes to the Financial Statements
For the Years Ended December 31, 2012 & 2011

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

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale or replacement of a significant operating unit or system, the original cost is removed from the Port asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of the Port asset. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

The Port's policy is to capitalize all individual asset additions greater than $1,000 and with an estimated life of more than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of three to fifty years.

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

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	$ 2,559,244	$ --	$ --	$ 2,559,244
Construction in progress	451,700	1,578,928	1,705,389	325,239
Total capital assets, not being Depreciated	3,010,944	1,578,928	1,705,389	2,884,483
Capital assets, being depreciated:				
Buildings	6,228,915	367,387	--	6,596,302
Machinery & equipment	3,576,188	63,595	--	3,639,783
Other Improvements	29,736,204	1,362,448	--	31,098,652
Total capital assets being Depreciated	39,541,307	1,793,430	--	41,334,737
Less accumulated depreciation for:				
Buildings	2,784,995	229,422	--	3,014,417
Machinery & equipment	3,090,650	105,506	--	3,196,156
Other improvements	11,287,787	982,152	--	12,269,939
Total accumulated depreciation	17,163,432	1,317,080	--	18,480,512
Total capital assets being depreciated - net	22,377,875	476,350	--	22,854,225
Total capital assets - net	$ 25,388,819	$ 2,055,278	$ 1,705,389	$ 25,738,708

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	$ 2,559,244	$ --	$ --	$ 2,559,244
Construction in progress	4,051,268	1,808,671	5,408,239	451,700
Total capital assets, not being Depreciated	6,610,512	1,808,671	5,408,239	3,010,944
Capital assets, being depreciated:				
Buildings	6,228,915	--	--	6,228,915
Machinery & equipment	3,573,252	2,936	--	3,576,188
Other Improvements	24,327,965	5,408,239	--	29,736,204
Total capital assets being Depreciated	34,130,132	5,411,175	--	39,541,307
Less accumulated depreciation for:				
Buildings	2,557,724	227,271	--	2,784,995
Machinery & equipment	2,983,155	107,495	--	3,090,650
Other improvements	10,335,313	952,474	--	11,287,787
Total accumulated depreciation	15,876,192	1,287,240	--	17,163,432
Total capital assets being Depreciated - net	18,253,940	4,123,935	--	22,377,875
Total capital assets - net	$ 24,864,451	$ 5,932,606	$ 5,408,239	$ 25,388,819

NOTE 5 – CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2012 and 2011. The 2012 projects include Boat Ramp Expansion, Commission Office Remodel, Commercial Dock Renovation, New Administration Building, GPS/LPV approach and Airport Master Plan Update. The 2011 projects include 75 Ton Travelift dock, Moorage Office Remodel, US Customs and Border Patrol, GPS/LPV approach and Airport Master Plan Update.

At year end the Port's commitments with contractors are as follows:

Project	Spent to Date 2012	Remaining Commitment	Spent to Date 2011	Remaining Commitment	Funding Source
PTBH – 75 Ton Travelift Dock			$272,728	$ 727,272	LTGO Bonds
Pt Hudson – US Customs Office			$ 12,860	$ 47,140	Port Reserves
JCIA – GPS/LPV Approach	$123,155	$146,845	$ 72,922	$ 197,078	FAA Grant
JCIA – Master Plan Update	$133,658	$ 16,342	$ 45,659	$ 104,341	FAA Grant
Total	$256,813	$163,187	$404,169	$1,075,831	

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Port is not aware of any issues or material violations of finance-related legal or contractual provisions.

NOTE 7 – PENSION PLANS

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

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of 5ive years of eligible service.

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

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

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

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

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee4 contributions were $95.2 million, and plan refunds paid out were $66.2 million.

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

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

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

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

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retires and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contributions rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012 are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan I and 4.64% for Plan 2.
***** Variable from 5.0% min. to 15.0% max. based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ -00-	$ 86,550	$ 11,919
2011	-00-	66,430	9,567
2010	3,895	58,808	7,662

NOTE 8 – RISK MANAGEMENT

The Port of Port Townsend 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, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

$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 liability loss; $250,000 deductible on property loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $245,000 on property loss. Enduris is responsible for $0 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

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.

In addition to Enduris, the Port maintains the following specialized insurance policies for coverages not available through Enduris. Policies in effect at December 31, 2012 were as follows:

Insurer	Type of Coverage	Face Amount	Deductible
Great American Insurance Co.	Marina Operators Liability and various subscribing underwriters	$ 20,000,000	$ 5,000
Ace Property & Casualty Insur.	Airport Liability	30,000,000	Nil
American Safety Indemnity Company	Underground Fuel Storage Tank	1,000,000	5,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

The Port has elected to be self-insured for unemployment insurance. No reserve for self-insurance has been established, as the potential liability is not considered material to the financial statements.

NOTE 9 – LONG TERM DEBT

A. Long-Term Debt

The Port issues general obligation and revenue bonds to finance acquisition, purchase or construction of various projects. Bond indebtedness has also been entered into to advance refund general obligation and revenue bonds.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	Amount of Installment
2005 Series – Reconstruction of Point Hudson Marina & upland improvements	2025	3.5%-4.2%	$5,000,000	$20,000-570,000
2006 Series - Refunding of 1997 Series For various capital improvements	2017	3.88%	$1,956,000	$6,000-232,000
2010 Series – Reconstruction of PTBH Marina, Travelift Dock, and related upland improvements	2029	.85%-6.125%	$5,515,000	$115,000-430,000

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

Year Ending December 31	2005 Series Principal	2005 Series Interest	2006 Series Principal	2006 Series Interest	2010 Series Principal	2010 Series Interest
2013	100,000	185,246	194,000	41,166	150,000	205,482
2014	100,000	181,246	201,000	33,640	175,000	203,337
2015	115,000	177,246	214,000	25,840	205,000	200,095
2016	130,000	172,646	220,000	17,538	230,000	191,895
2017	130,000	167,446	232,000	9,002	260,000	182,695
2018-2022	2,335,000	631,830	0	0	1,425,000	734,524
2023-2027	1,640,000	138,712	0	0	1,835,000	404,994
2028-2029	0	0	0	0	845,000	50,761
Total	$4,550,000	$1,654,372	$1,061,000	$127,186	$5,125,000	$2,173,783

In November 2005, the Port issued L.T.G.O. Bonds for $5,000,000. The majority of the proceeds of this issue were used in 2006 & 2007 to finance the reconstruction project of the Point Hudson Marina, which was substantially completed and re-opened in July, 2007. Additionally, some of the bond proceeds were also used in the renovation of the old Point Hudson Hotel/Hospital Building, into new office space, including the Port Administration and Accounting & Finance Offices, which was completed in 2006.

In January 2006 the Port issued L.T.G.O. Refunding Bonds for $1,956,000, to advance refund the $1,900,000 callable portion of the 1997 L.T.G.O. Bonds, leaving the non-callable 2006 & 2007 maturities, totaling $280,000, outstanding, and which were all redeemed as of July 1, 2007. The Present Value Savings over the remaining eleven and one-half year bond life, from the date of issue, from this transaction was $111,177.

In June 2010, the Port issued L.T.G.O. Bonds for $5,515,000. Approximately $4,567,000 of the proceeds of this issue were used to finance the reconstruction of the A & B Dock portion of the Port Townsend Boat Haven Marina, which was completed and re-opened in February, 2011. The remaining bond funds were used to finance the reconstruction of the 75-ton Travelift haul-out pier, and some additional related uplands improvements, which was completed in September 2012.

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	Amount of Installment
2005 Series - Refunding of 1996 Series for various capital improvements	2016	3%-5%	$4,455,000	$300,000-455,000

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

Year Ending December 31	2005 Series	
	Principal	Interest
2013	395,000	83,026
2014	415,000	65,250
2015	435,000	45,000
2016	455,000	22,750
Total	$1,700,000	$ 216,026

In March 2005, the Port issued Revenue Refunding Bonds for $4,455,000, to advance refund all of the outstanding 1996 Revenue Bonds, totaling $4,615,000. The Present Value Savings, after all costs, over the remaining twelve year bond life, from the date of issue, from this transaction was $227,296.

The Port's revenue bond covenants require the Port to maintain a minimum 1.25 coverage ratio requirement. The Port's debt service coverage ratio was 2.16 for December 31, 2012, and 1.94 for December 31, 2011.

The contracts payable currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	Amount of Installment
1997 WA State – CERB Loan – Purchase of 300 Ton Travelift	2017	5.50%	$750,000	$50,000
2005 – WA State Treasurer-LOCAL Program – Purchase of 75 Ton Travelift	2014	4.0602%	$185,000	$7,655-10,991

The annual debt service requirements to maturity for the contracts payable are as follows:

Year Ending December 31	Contracts Payable Principal	Interest
2013	70,906	15,272
2014	71,763	11,665
2015	50,000	8,250
2016	50,000	5,500
2017	50,000	
Total	$ 292,669	$ 40,687

B. Changes in Noncurrent Liabilities

During the year ended December 31, 2012, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$11,147,000	0	$411,000	$10,736,000	$444,000
Revenue Bonds	2,080,000	0	380,000	1,700,000	395,000
Unamortized Premium	188,075	0	14,527	173,548	14,527
Unamortized Discounts	(12,368)	0	(2,249)	(10,119)	(2,249)
Deferred Amount on Refunding	(99,944)	0	(20,678)	(79,267)	(20,678)
Total Bonds Payable	$13,302,763	0	$782,600	$12,520,162	
Contracts Payable	$362,750	0	$70,082	$292,668	$70,906
Compensated Absences	174,499	$19,732	0	194,230	
Claims and Judgments	0			0	
Total Noncurrent Liabilities	$13,840,956	$19,732	$852,682	$13,007,061	$901,506

During the year ended December 31, 2011, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2011	Additions	Reductions	Ending Balance 12/31/2011	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$11,530,000	$ 0	$383,000	$11,147,000	$411,000
Revenue Bonds	2,440,000	0	360,000	2,080,000	380,000
Deferred Premium	202,602	0	14,527	188,075	
Deferred Discounts	(385,207)	0	(45,250)	(339,957)	
Total Bonds Payable	$13,787,395	0	$712,277	$13,075,118	
Contracts Payable	$432,041	0	$69,291	$362,750	$70,082
Compensated Absences	158,258	$129,185	112,944	174,499	
Claims and Judgments	0			0	
Total Noncurrent Liabilities					
	$14,377,694	$129,185	$894,512	$13,612,367	$861,082

NOTE 10 - LEASES

The Port leases a significant portion of airport, industrial and marine terminal land to tenants under operating leases expiring in various years through the year 2053. Minimum future lease payments to be received on operating leases having remaining terms in excess of one year, as of December 31, 2012 for each of the next five years, and in total are:

2013	$ 658,445
2014	642,790
2015	455,905
2016	406,603
2017	388,535
After 2017	4,220,805
Total	$ 6,773,083

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

The Port's statement of net position reports $456,707 and $1,545,482 of restricted component of net position in 2012 and 2011 respectively. The entire amount for 2012 is restricted by bond covenants. In 2011 $445,000 is restricted by bond covenants and $1,099,982 is unspent bond proceeds.

NOTE 11 – CONTINGENCIES AND LITIGATION

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

As discussed in Note No. 8, the Port is contingently liable for repayment of refunded debt.

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

NOTE 12 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The Port does not have post-employment benefit obligations other than defined pension plans.

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.

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