Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Port Townsend

Jefferson County

For the period January 1, 2014 through December 31, 2015

Published January 19, 2017

Report No. 1018433

Office of the Washington State Auditor
Pat McCarthy

January 19, 2017

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,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

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TABLE OF CONTENTS

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

Port of Port Townsend
Jefferson County
January 1, 2014 through December 31, 2015

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, 2015 and 2014, 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 11, 2017. As discussed in Note 15 to the financial statements, during the year ended December 31, 2015, the Port implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

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.

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2017

INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS

Port of Port Townsend
Jefferson County
January 1, 2014 through December 31, 2015

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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Port’s basic financial statements as listed on page 10.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port of Port Townsend, as of December 31, 2015 and 2014, and the respective 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 15 to the financial statements, in 2015, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 22 and pension plan information on pages 68 through 71 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 11, 2017 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.

Pat McCarthy

State Auditor

Olympia, WA

January 11, 2017

FINANCIAL SECTION

Port of Port Townsend
Jefferson County
January 1, 2014 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015
Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015
Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Net Position – 2015
Statement of Revenues, Expenses and Changes in Net Position – 2014
Statement of Cash Flows – 2015
Statement of Cash Flows – 2014
Notes to Financial Statements – 2015
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2015
Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2015
Schedule of Employer Contributions – PERS 1 – 2015
Schedule of Employer Contributions – PERS 2/3 – 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2015

INTRODUCTION:

The management's discussion and analysis (MD&A) of the Port of Port Townsend (the Port) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2015. 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 geographical 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 2015, the Port's overall Operating Revenues were $5,129,147, which was an increase of $195,628 from 2014, though less than budgeted by $48,011. The increase in revenue comes primarily from the Point Hudson, Boat Haven Moorage and Properties, where the level of activity has continued to show a slight increase from the economic down-turn as well as additional leasehold tenants being secured.

- The Port's overall Operating Expenses decreased in 2015, to $5,628,636, which was $132,004 less than 2014 Operating Expenses, and $275,676 less than budget.

- In 2015 the Port received $226,355 in total Grant Funds from the Federal Aviation Administration, and the Washington State Department of Recreation and Conservation Office. 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, Capital Contributions.

- The Port's 2015 net non-operating income over non-operating expense ended at $869,144 (including Capital Contributions), which is $29,972 less than budget. This is primarily due to project timing in 2015.

- ♦ The Port's total assets exceeded its total liabilities by $17,142,815 (Net Position) as of December 31, 2015.
- ♦ Long-term debt (net of current portion) totaled $9,866,117 as of December 31, 2015. The current portion of long-term debt totaled $653,907. The Port's Total Non-Current Liabilities totaled $11,261,793 as the result of the GASB 68 implementation where recognition of the Port's Net Pension Liability of $1,395,676 was required.

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

	2015	2014
Current Assets	$2,608,787	$2,563,549
Restricted Assets	0	475,155
Capital Assets	27,100,232	28,330,486
Total Assets	**29,709,019**	**30,894,035**
Deferred Outflows	**291,548**	**37,910**
Current Liabilities	1,380,754	1,779,474
Noncurrent Liabilities	11,261,793	10,961,031
Total Liabilities	**12,642,547**	**12,740,505**
Deferred Inflows	**215,205**	**0**
Net Investment in Capital Assets	16,798,650	16,069,591
Restricted by Bond Covenants	0	475,155
Unrestricted	344,165	1,646,695
Total Net Position	**17,142,815**	**18,191,441**
Total Liabilities, Deferred Inflows and Net Position	**$30,000,567**	**$30,931,946**

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2015, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $369,655 from Operating and Non-Operating activities, in 2015. This increase was offset by the implementation of GASB 68 with a change in accounting principle reducing Net Position by $1,418,281. These two changes in Net Position resulted in the Net Position at year-end of $17,142,815. Of this amount, $16,798,650 reflects the Port's investment in capital assets, net of related debt. This equals 98% of the Port's total Net Position.

The Port had Capital Assets of $27,100,232, net of accumulated depreciation, as of December 31, 2015. In 2015, capital assets' net book value decreased by $755,100.

In 2015, the Port's total current liabilities decreased by $398,720. Current liabilities include payments for expenses already incurred, customer deposits, accrued interest on the Port's bonds, bond principal payment amounts due in 2016, and known employee termination payouts due in 2016.

In 2015, the Port's non-current liabilities increased by $300,762. The Port made principal payments of $584,000 on its outstanding bonds and made a bond payoff of $890,000 as required by the terms of the 2015 LTGO Refunding Bond. General Obligation bonds outstanding at December 31, 2015 were $8,876,782, a decrease of $526,938 from the prior year. Revenue bonds outstanding at December 31, 2015 were $807,000. This is a decrease of $459,874 from the prior year. Despite these bond payments, the total non-current liabilities increased slightly due to the implementation of GASB 68 which required the Port to recognize $1,395,676 in Net Pension Liabilities.

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

	2015	2014
Revenues		
Operating Revenues		
Airport	$ 130,727	$ 130,899
Marina & Work/Ship Yard	4,089,367	3,827,045
Property Lease & Rental	909,053	970,018
Total Operating Revenues	$ 5,129,147	$ 4,927,962
Non-Operating Revenues		
Investment Income	$ 3,327	$ 11,357
Property Tax Levied	922,286	900,279
Grants	-	277,220
Other Taxes	103,610	84,692
Other Non-Operating Revenue	78,333	82,359
Contributed Capital	226,355	-
Total Non-Op Revenues	$ 1,333,911	$ 1,355,907
Total Revenues	$ 6,463,058	$ 6,283,869
Expenses		
Operating Expenses		
General operations	$ 2,871,845	$ 2,913,655
Maintenance	192,564	195,847
Administration & General	1,041,216	1,163,906
Depreciation	1,523,011	1,487,232
Total Operating Expenses	$ 5,628,636	$ 5,760,640
Non-Operating Expenses		
Interest Charges	$ 398,506	$ 510,297
Election Expense	6,398	-
Other Non-Operating Expenses	59,862	1,718
Total Non-Operating Expenses	$ 464,766	$ 512,015
Total Expenses	$ 6,093,402	$ 6,272,655
Change in Net Assets	369,656	11,214
Net Position - Beginning	18,191,441	18,180,227
Change in Accounting Principal	(1,418,281)	0
Net Position - Ending	$ 17,142,816	$ 18,191,441

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 2015 increased by $201,185 or 4% over 2014, primarily from increased activity in Yard and Marina operations.

Total Operating Expenses decreased by $132,004 or 2.3% in 2015, primarily from decreases in legal, utilities, claims and damages and bad debt costs.

Total Non-operating revenues decreased by $10,750 for 2015.

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 as a 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. This will require considerable more funds than the Port projects will be available. The plan incorporates the philosophy of the triple bottom line which summarizes that all program and project considerations 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 travel lift 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, where vessel owners and marine trade vendors may work on vessels. In 2006, the State of Washington issued a new boatyard permit, which requires boatyards to meet very strict storm water discharge bench-marks. The Department of Ecology (DOE) 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, however even with this improvement and other continued improvements, the DOE issued an Administrative Order for Modification of Permit Coverage, Level 3 on June 17, 2016. In accordance with this

Administrative Order, the Port is required to provide DOE with an engineering report to remedy the storm water non-compliance by December 31, 2016 and by September 30, 2017 have implemented that plan.

- The Port is in the planning and permitting stage of replacement of the Point Hudson Jetty. This project is anticipated to cost approximately $5.5 million for both north and south walls, though the south is anticipated to be the first for approximately $3.2 million. The Port has received a federal grant award of approximately $1.1 million to cover a portion of the cost. Additional funding for the north wall, estimated to cost approximately $2.3 million, is being sought.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2014

INTRODUCTION:
The discussion and analysis of the Port of Port Townsend (the Port) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2014. 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 geographical 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 2014, the Port's overall Operating Revenues were $4,927,961, which was an increase of $150,612 from 2013, and more than budgeted by $66,111. The increase in revenue comes primarily from the Work Yard operations as well as the Point Hudson facility, where the level of activity has continued to show a slight increase from the economic down-turn as well as additional leasehold tenants being secured.

- The Port's overall Operating Expenses increased in 2014, to $5,760,640, going up $558,502 from 2013 Operating Expenses, and were $369,787 over budget.

- In 2014 the Port received $277,220 in total Grant Funds from the Federal Aviation Administration, Washington State Department of Transportation, and Washington State Department of Commerce, collectively. 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.

- The Port's 2014 net non-operating income over non-operating expense ended at $843,892, which is $366,056 ahead of budget, due in part to grant revenue as well as timber revenues.

- The Port's assets exceeded its liabilities by $18,191,441 (Net Position) as of December 31, 2014.

- Long-term debt (net of current portion) totaled $10,961,031 as of December 31, 2014. The current portion of long-term debt totaled $1,053,057 and the Port had reserves of $475,155 as required by bond indentures as of year-end.

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

	2014	2013
Current Assets	$2,563,549	$2,865,635
Restricted Assets	475,155	465,839
Capital Assets	28,330,486	28,740,397
Total Assets	**30,894,035**	**32,071,872**
Deferred Outflows	**37,910**	**58,588**
Current Liabilities	1,779,474	1,942,642
Noncurrent Liabilities	10,961,031	12,007,593
Total Liabilities	**12,740,505**	**13,950,234**
Net Investment in Capital Assets	16,069,591	16,022,073
Restricted by Bond Covenants	475,155	465,839
Unrestricted	1,646,695	1,692,315
Total Net Position	**18,191,441**	**18,180,227**
Total Liabilities and Net Position	**$30,931,946**	**$32,130,461**

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2014, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $11,214, in 2014, for a total of $18,191,441. Of this amount $16,069,591 reflects the Port's investment in capital assets, net of related debt. This equals 88% of the Port's total Net Position.

The Port maintained Capital Assets of $28,330,486, net of accumulated depreciation, as of December 31, 2014. The net book value of the assets increased by $875,750 in 2014.

The Port's total current liabilities decreased by $163,168 in 2014. 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 2015.

The Port's noncurrent liabilities decreased by $1,046,562 in 2014. The Port made principal payments of $962,763 on its outstanding bonds. General Obligation bonds outstanding at December 31, 2014 were $9,403,720, a decrease of $540,428 from the prior year. Revenue bonds outstanding at December 31, 2014 were $1,266,874. This is an decrease of $440,850 from the prior year.

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

	2015	2014
Revenues		
Operating Revenues		
Airport	$ 130,899	$ 128,478
Marina & Work/Ship Yard	3,827,045	3,744,367
Property Lease & Rental	970,018	904,504
Total Operating Revenues	$ 4,927,962	$ 4,777,349
Non-Operating Revenues		
Investment Income	$ 11,357	$ 13,377
Property Tax Levied	900,279	884,622
Grants	277,220	337,626
Other Taxes	84,692	53,701
Other Non-Operating Revenue	82,359	18,084
Contributed Capital	-	2,214,982
Total Non-Op Revenues	$ 1,355,907	$ 3,522,392
Total Revenues	$ 6,283,869	$ 8,299,741
Expenses		
Operating Expenses		
General operations	$ 2,913,655	$ 2,641,815
Maintenance	195,847	171,134
Administration & General	1,163,906	980,874
Depreciation	1,487,232	1,408,315
Total Operating Expenses	$ 5,760,640	$ 5,202,138
Non-Operating Expenses		
Interest Charges	$ 510,297	$ 561,813
Election Expense	-	16,438
Other Non-Operating Expenses	1,718	8,988
Total Non-Operating Expenses	$ 512,015	$ 587,239
Total Expenses	$ 6,272,655	$ 5,789,377
Change in Net Assets	11,214	2,510,364
Net Position - Beginning	18,180,227	15,852,862
Change in Accounting Principal	0	(182,999)
Net Position - Ending	$	$

18,191,441	18,180,227

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 2014 increased by $150,612 or 3% over 2013, primarily from increased activity in Yard and Lease operations.

Total Operating Expenses increased by $558,502 or 10% in 2014, primarily from increases in staff costs, contract services and settlement agreements.
Total Non-operating results for 2014, decreased by $2,091,260 which is a result of the gain on disposition of assets recognized in the prior year.

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. This 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, 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.

- The Port will need to replace the Point Hudson Jetty in the coming years. This project is anticipated to cost approximately $4,000,000. The Port has received a federal grant of $1,100,000 to cover a portion of the cost. Additional funding is still being researched.

- The Port is in the process of refunding its 2005 Limited Tax General Obligation (LTGO) bonds. This should be completed in May of 2015 and will see a savings of approximately $250,000 over the next 10 years.

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 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.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2015

CURRENT ASSETS:		
Cash and Cash Equivalents	$	**770,857**
Investments		**1,322,064**
Accounts Receivable		**147,970**
Property Taxes Receivable		**20,856**
Interest Receivable		**269**
Due from Other Governments		**209,239**
Inventories		**2,982**
Prepaid Expenses		**134,549**
Total Current Assets	**$**	**2,608,787**
Capital Assets Not Being Depreciated		
Land		**2,505,970**
Construction in Progress		**955,299**
Capital Assets Being Depreciated		
Buildings		**7,815,475**
Other Improvements		**35,026,181**
Equipment		**3,696,373**
Less: Accumulated Depreciation		**(22,899,066)**
Total Noncurrent Assets	**$**	**27,100,232**
TOTAL ASSETS	**$**	**29,709,019**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount - Bond Refunding		**86,107**
Deferred amount - Pension		**205,441**
Total Deferred Outflows of Resources	**$**	**291,548**

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

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2015

CURRENT LIABILITIES:		
Accounts Payable	$	**401,174**
Contracts Payable		**13,556**
Bond Interest Payable		**101,848**
Customer Deposits		**155,794**
Unearned Revenue		**4,310**
Current Portion - Employee Leave Benefits		**50,164**
Current Portion of Long-Term Debt		**653,907**
Total Current Liabilities	**$**	**1,380,754**
NONCURRENT LIABILITIES:		
G.O. Bonds, net of Current Portion		**8,876,782**
Revenue Bonds, net of Current Portion		**807,000**
Contracts Payable, net of Current Portion		**50,000**
Employee Leave Benefits		**132,335**
Net Pension Liability		**1,395,676**
Total Noncurrent Liabilities	**$**	**11,261,793**
Total Liabilities	**$**	**12,642,547**
DEFERRED INFLOWS:		
Deferred Inflows - Pension		**215,205**
NET POSITION:		
Net investment in capital assets		**16,798,650**
Unrestricted Net Assets		**344,165**
TOTAL NET POSITION		**17,142,815**

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

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2014

		2014
CURRENT ASSETS:		
Cash and Cash Equivalents	$	**483,010**
Investments		**1,740,313**
Accounts Receivable		**99,145**
Property Taxes Receivable		**26,467**
Interest Receivable		**1,734**
Due from Other Governments		**80,695**
Inventories		**4,395**
Prepaid Expenses		**127,790**
Total Current Assets		**2,563,549**
NONCURRENT ASSETS:		
Restricted Assets		
Investments, CD		**475,155**
Total Restricted Cash & Investments		**475,155**
Capital Assets Not Being Depreciated		
Land		**2,505,970**
Construction in Progress		**542,839**
Capital Assets Being Depreciated		
Buildings		**7,801,269**
Other Improvements		**34,723,235**
Equipment		**3,658,074**
Less: Accumulated Depreciation		**(21,376,055)**
Total Noncurrent Assets		**28,330,486**
TOTAL ASSETS	**$**	**30,894,035**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding		**37,910**

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2014

		2014
CURRENT LIABILITIES:		
Accounts Payable	$	**427,735**
Contracts Payable		**3,400**
Bond Interest Payable		**127,135**
Customer Deposits		**163,887**
Unearned Revenue		**4,261**
Current Portion of Long-Term Debt		**1,053,057**
Total Current Liabilities		**1,779,474**
NONCURRENT LIABILITIES:		
G.O. Bonds, net of Current Portion		**9,403,720**
Revenue Bonds, net of Current Portion		**1,266,874**
Contracts Payable, net of Current Portion		**100,000**
Employee Leave Benefits		**190,437**
Total Noncurrent Liabilities		**10,961,031**
Total Liabilities		**12,740,505**
NET POSITION:		
Net investment in capital assets		**16,069,591**
Restricted by Bond Covenants		**475,155**
Unrestricted Net Position		**1,646,695**
TOTAL NET POSITION		**18,191,441**

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, 2015

Operating Revenues:		
Airport Operations	$	**130,727**
Marina, Work Yard, Ship Yard Operations		**4,032,473**
Property Lease / Rental Operations		**965,947**
Total Operating Revenues	$	**5,129,147**
Operating Expenses:		
General Operations		**2,871,845**
Maintenance		**192,564**
Administrative		**1,041,216**
Depreciation		**1,523,011**
Total Operating Expenses	$	**5,628,636**
Operating Income	$	**(499,489)**
Non-Operating Revenues (Expenses):		
Investment Income		**3,327**
Taxes Levied for General Purposes		**922,286**
Timber Revenues on State & County Property		**103,610**
Interest Expense		**(398,506)**
Election Expense		**(6,398)**
Gain on Disposition of Assets		**-**
Other Revenue & Expense - Net		**18,470**
Total non-operating revenues (expenses)	$	**642,789**
Income before capital contributions	$	**143,300**
Capital contributions		**226,355**
Increase in Net Position	$	**369,655**
Net Position - Beginning of Year		**18,191,441**
Change in accounting principle (Note GASB 68)		**(1,418,281)**
Net Position - End of Year	$	**17,142,815**

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

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended December 31, 2014

		2014
Operating Revenues:		
Airport Operations	$	130,899
Marina, Work Yard, Ship Yard Operations		3,827,045
Property Lease / Rental Operations		970,018
Total Operating Revenues		4,927,961
Operating Expenses:		
General Operations		2,913,656
Maintenance		195,847
Administrative		1,163,905
Depreciation		1,487,232
Total Operating Expenses		5,760,640
Operating Income		(832,679)
Non-Operating Revenues (Expenses):		
Investment Income		11,357
Taxes Levied for General Purposes		900,279
Timber Revenues on State & County Property		84,692
Grant Receipts		277,220
Interest Expense		(510,297)
Other Revenue & Expense - Net		80,642
Net Nonoperating Revenue (expense)		843,892
Increase in Net Position		11,214
Net Position - Beginning of Year		18,180,227
Net Position - End of Year	$	18,191,441

See accompanying notes to the financial statements.

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Cash Flows
For The Year Ended December 31, 2015

	2015
Cash Flow From Operating Activities	
Receipts from Customers	$ 5,052,891
Customer Deposits	(8,093)
Payments to Suppliers	(1,652,289)
Payments to Employees	(2,481,222)
Net Cash Provided by Operating Activities	911,288
Cash Flow From Noncapital Financing Activities	
Proceeds From Property Taxes	927,897
Proceeds From Miscellaneous Taxes	110,863
Miscellaneous Receipts/Expense, Net	168,325
Net Cash Provided by Noncapital Financing Activities	1,207,086
Cash Flow From Capital and Related Financing Activities	
Purchases and Construction of Capital Assets	(751,094)
Principal Paid on Capital Debt	(1,474,000)
Interest Paid on Capital Debt	(431,031)
Debt Issue Costs	(72,597)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,728,722)
Cash Flow From Investing Activities	
Interest Earnings	4,792
Net Cash Provided by Investing Activities	4,792
Net Increase (Decrease) in Cash	(605,557)
Balance of Cash - Beginning of Year	$ 2,698,478 (a)
Balance of Cash - End of Year	$ 2,092,921

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

Operating Income/(Loss)	$ (499,489)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	1,523,011
Changes in Assets and Liabilities:	
(Increase) decrease Receivables	(48,825)
(Increase) decrease Inventories	1,413
(Increase) decrease Prepaid Expenses	(24,023)
Increase (decrease) Accounts and Other Payables	(40,798)
Net Cash Provided by Operating Activities	$ 911,288

(a) See Note 11 regarding variance from prior year report.

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

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Cash Flows
For The Year Ended December 31, 2014

	2014
Cash Flow From Operating Activities	
Receipts from Customers	$ 4,942,397
Customer Deposits	43,046
Payments to Suppliers	(2,170,214)
Payments to Employees	(2,387,592)
Net Cash Provided by Operating Activities	427,637
Cash Flow From Noncapital Financing Activities	
Proceeds From Property Taxes	901,714
Proceeds From Miscellaneous Taxes	89,727
Miscellaneous Receipts/Expense, Net	576,657
Net Cash Provided by Noncapital Financing Activities	1,568,098
Cash Flow From Capital and Related Financing Activities	
Purchases and Construction of Capital Assets	(603,314)
Principal Paid on Capital Debt	(962,763)
Interest Paid on Capital Debt	(496,645)
Debt Issue Costs	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,062,722)
Cash Flow From Investing Activities	
Interest Earnings	11,369
Net Cash Provided by Investing Activities	11,369
Net Increase (Decrease) in Cash	(55,618)
Balance of Cash - Beginning of Year	$ 2,278,941
Balance of Cash - End of Year	$ 2,223,323

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

Operating Income	$ (832,679)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	1,487,232
Changes in Assets and Liabilities:	
(Increase) decrease Receivables	(6,248)
(Increase) decrease Inventories	(157)
(Increase) decrease Prepaid Expenses	27,594
Increase (decrease) Accounts and Other Payables	(248,106)
Net Cash Provided by Operating Activities	$ 427,636
Noncash Investing, Capital or Financing Transactions	0

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 government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

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.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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, 2015, the treasurer was holding $1,322,064 in short-term investments of surplus cash. This amount is classified on the Statement of Net Position as Investments.

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 and contracts 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 or debt service. There were no restricted assets or liabilities at the end of this year.

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

Deferred Outflows/Inflows of Resources
In June 2015, the Port refunded $4,235,000 of its 2005 General Obligation Bonds for $4,318,960. The difference is a deferred loss on refunding. The Port implemented GASB Statement Number 65 in 2013 and this standard requires the Port report this as a deferred outflow of resources instead of deferred interest expense on the Statement of Net Position.

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, if the employee has worked at least six (6) continuous months as a regular employee with the Port.

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.

Pensions – See Note 7, *Pension Plans*
The Port implemented GASB Statement Number 68, Accounting for Financial Reporting for Pensions, in 2015. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, as well as information about the fiduciary net position of all state sponsored pension plans and additions to and deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems (DRS). For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-Term Debt – See Note 9, *Long-Term Debt*

Unearned Revenues
This account includes amounts recognized as receivables but not revenues because the revenue recognition criteria have not been met.

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, 2015 are as follows:

Washington State Treasurer's Investment Pool and the US Bank – Certificate of Deposit totaled $1,322,064.

$ 1,318,414	2015 - State Investments Pool
3,649	2015 – 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 2015 was approximately $0.20070 per $1,000 of A.V., on an assessed valuation of $4,585,902,989 for a total regular budgeted tax levy of $930,900.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives in excess of one (1) year, 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 at 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 $5,000 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, 2015 was as follows:

	Balance 1/1/2015	Increases	Decreases	Balance 12/31/2015
Capital Assets, not being depreciated:				
Land	$ 2,505,969	$ 0	$ 0	$ 2,505,969
Construction in progress	542,839	722,201	309,741	955,299
Total capital assets not being depreciated	$ 3,048,808	722,201	309,741	$ 3,461,268
Capital assets, being depreciated				
Buildings	7,801,269	14,206	0	7,815,475
Machinery & equipment	3,658,074	38,299	0	3,696,373
Other improvements	34,723,236	302,946	0	35,026,182
Total capital assets being depreciated	46,182,579	355,451	0	46,538,030
Less accumulated depreciation for:				
Buildings	3,532,591	269,560	0	3,802,151
Machinery & Equipment	3,399,452	97,590	0	3,497,042
Other improvements	14,444,012	1,155,861	0	15,599,873
Total accumulated depreciation	21,376,055	1,523,011	0	22,899,066
Total capital assets being depreciated, Net	24,806,524	(1,167,560)	0	23,638,964
Total capital assets, Net	$27,855,332	$ (445,359)	$ 309,741	$27,100,232

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port has active construction projects as of December 31, 2015. The projects include: Boat Ramp Expansion, Airport All Weather Observation System (AWOS), and the Point Hudson Breakwater.

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

Project	Spent to Date 2015	Remaining Commitment	Funding Source
Boat Ramp Expansion	$ 207,991	$ 204,759	State grant & Reserves

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

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

Aggregate Pension Amounts – All Plans		
Pension liabilities	$	1,395,675
Pension assets	$	-
Deferred outflows of resources	$	205,441
Deferred inflows of resources	$	215,205
Pension expense/expenditures	$	154,334

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

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

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

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

The Port's actual contributions to the plan were $73,176 for the year ended December 31, 2015.

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

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

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

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

Contributions

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

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

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

The Port's actual contributions to the plan were $93,999 for the year ended December 31, 2015.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to

June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 902,759	$ 741,484	$ 602,803
PERS 2/3	$ 1,912,888	$ 654,191	$ (309,546)

PORT OF PORT TOWNSEND
Notes to the Financial Statements
For the Year Ended December 31, 2015

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the Port's reported a total pension liability of $1,395,675 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 741,484
PERS 2/3	$ 654,191

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.013526%	0.014175%	0.000649%
PERS 2/3	0.017414%	0.018309%	0.000895%

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

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

Pension Expense

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

	Pension Expense
PERS 1	$ 75,233
PERS 2/3	79,101
Total all plans	$ 154,334

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 40,567
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 46,099	$
TOTAL	$ 46,099	$ 40,567

PERS 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 69,541	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 174,638
Changes of assumptions	$ 1,054	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 28,798	$ -
Contributions subsequent to the measurement date	$ 59,949	$ -
TOTAL	$ 159,342	$ 174,638

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

Year ended December 31:	PERS 1	PERS 2/3
2016	$ (15,722)	$ (38,945)
2017	$ (15,722)	$ (38,945)
2018	$ (15,722)	$ (38,945)
2019	$ 6,600	$ 41,590
2020	$ -	-
Thereafter	$ -	-

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 Inter-local Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris 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 crime coverage up to a liability limit of $1,000,000 per occurrence.

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.

Insurance carriers cover all losses over the deductibles as shown on 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
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, Travel Lift Dock, and related upland improvements	2029	.85%-6.125%	$5,515,000	$115,000-430,000
2015 Series – Refunding of 2005 Series	2025	3.00%	$4,115,000	$125,000-535,000

Note: The 2015 LTGO Refunding Bond took advantage of lower interest rates to refund the 2005 LTGO Bond Series. The 2005 Series was used to reconstruct the Point Hudson Marina and upland improvements.

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

Year Ending December 31	2015 Series Principal	2015 Series Interest	2006 Series Principal	2006 Series Interest	2010 Series* Principal	2010 Series* Interest
2016	125,000	130,651	220,000	17,538	230,000	226,838
2017	135,000	119,700	232,000	9,002	260,000	217,638
2018	430,000	115,650	0	0	235,000	207,238
2019	450,000	102,750	0	0	265,000	197,838

2020	460,000	89,250	0	0	295,000	187,238
2021-2025	2,515,000	230,700	0	0	1,680,000	732,288
2026-2029	0	0	0	0	1,630,000	254,188
Total	$4,115,000	$788,701	$452,000	$ 26,540	$4,595,000	$2,023,263

* *These bonds offer a Build America Bond rebate which the Port applies for semi-annually. The rebate effectively lowers the interest cost from these amounts.*

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 issue proceeds 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 Travel Lift haul-out pier, and some additional related uplands improvements, which was completed in September 2012.

In June 2015, the Port issued L.T.G.O. Bonds for $4,115,000. This was used to refund the outstanding 2005 L.T.G.O. Bonds and take advantage of lower bond rates. As a result, the refunded 2005 Series bonds are considered defeased and the liability has been removed from the Port’s long term debt. The net present value of the refunding was a savings of $406,934 over the life of the bond. Part of terms of this refunding required the Port to pay off the 2005 Revenue Bonds early.

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	Amount of Installment
2013 Series – Administration Building	2018	2.20-3.00%	$807,000	$197,267-206,278

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

Year Ending December 31	2013 Series	
	Principal	Interest
2016	$ 0	$ 17,754
2017	397,493	21,251
2018	409,507	9,237
Total	$ 807,000	$ 48,242

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset 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 May 2013, the Port issued $807,000 in Revenue Bonds for the construction of the new Administration Building.

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 Travel Lift	2017	5.50%	$750,000	$50,000

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

Year Ending December 31	Contracts Payable	
	Principal	Interest
2016	$ 50,000	$ 5,500
2017	50,000	2,750
Total	$ 100,000	$ 8,250

B. Changes in Noncurrent Liabilities

During the year ended December 31, 2015, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$9,816,000	$4,115,000	$4,769,000	$9,162,000	$575,000
Revenue Bonds	1,697,000	0	890,000	807,000	0
Premiums	144,494	203,960	29,599	318,855	29,073
Discounts	(5,622)	0	(5,622)	0	0
Total Bonds Payable	$11,651,872	$4,318,960	$5,682,977	$10,287,855	$604,073
Contracts Payable	$150,000	0	$50,000	$100,000	$50,000
Net Pension Liability	0	1,395,676	0	1,395,676	0
Compensated Absences	190,437	0	7,938	182,499	50,164
Total Noncurrent Liabilities	$11,992,309	$5,714,636	$5,740,915	$11,966,030	$704,237

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 rental revenue on operating leases is as follows:

Year Ending December 31	Amount
2016	$ 723,667
2017	658,852
2018	576,324
2019	481,403
2020	465,149
2021-2053	6,353,262
Total	$ 9,258,657

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

In the beginning of 2015, the Port had a restricted component of net position in the amount of $475,155. The Port refunded bonds in 2015 and used those restricted funds towards that purpose. This restricted amount was included on the 2015 Statement of Cash Flows, the Balance of Cash – Beginning of Year, as $2,698,478, and varied from the prior year Balance of Cash – End of Year in the amount of the restricted funds since those were not included on the 2014 Cash Flows.

The Port's statement of net position reports no restricted component of net position for fiscal year ended December 31, 2015.

NOTE 12 – 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 13 – OTHER DEBITS (CREDITS)

At December 31, 2015, the Port held $4,310 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2016.

NOTE 14 - OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

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

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE

The Port implemented GASB 68, Accounting and Financial Reporting for Pensions, and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date in 2015. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, as well as information about the fiduciary net position of all state sponsored pension plans and additions to and deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported a fair value. The $1,418,281 change in accounting principle is the result of this implementation.

NOTE 16 – SUBSEQUENT EVENT

On June 17, 2016, the Washington State Department of Ecology (Ecology) issued an Administrative Order (Order Docket No. 13279) requiring preparation of an engineering report to further evaluate and recommend stormwater infrastructure improvements and best management practices (BMPs) necessary to attain permit benchmarks for regulated constituents (i.e., copper and zinc) at the Port of Port Townsend's Boat Haven Boatyard property. The Administrative Order requires the Port to complete an engineering report consistent with Washington Administrative Code (WAC) 173-240-130 addressing the requirements for a Level Three Response under the Boatyard General Permit. The report will evaluate, select, and design (conceptually) stormwater improvements and operational and source controls that will result in attainment of permit benchmarks for regulated constituents.

The Administrative Order requires implementation of the preferred stormwater infrastructure improvements and BMPs identified in the engineering report (which must be approved by Ecology) by September 30, 2017. To assist the Port in addressing this situation, the Port has retained Parametrix (Engineering, Planning & Environmental Sciences) to prepare the Level Three Response engineering report. Failure to comply with Ecology's Administrative Order could result in the imposition of monetary penalties.

PORT OF PORT TOWNSEND
Notes to the Financial Statements
For the Year Ended December 31, 2014

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, 2014, the treasurer was holding $1,740,313 in short-term investments of surplus cash. This amount is classified on the Statement of Net Position as investments.

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:

	2014
Investments -	$ 475,155

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.

Other Accrued Liabilities

These accounts consist of accrued business and payroll taxes.

PORT OF PORT TOWNSEND
Notes to the Financial Statements
For the Year Ended December 31, 2014

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, 2014 are as follows:

Washington State Treasurer's Investment Pool, Kitsap Bank – C.D.

$ 1,736,665	2014 - State Investments Pool
$ 475,155	2014 – Kitsap Bank – C.D.
$ 3,648	2014 – 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 2014 was approximately $ .20 per $1,000 of A.V., on an assessed valuation of $4,418,216,296 for a total regular tax levy of $899,019.

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 $5,000 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, 2014 was as follows:

	Balance 1/1/2014	Increases	Decreases	Balance 12/31/2014
Capital Assets, not being depreciated:				
Land	$ 2,505,969	$ 0	$ 0	$ 2,505,969
Construction in progress	532,694	566,480	556,335	542,839
Total capital assets not being depreciated	$ 3,038,663	566,480	556,335	$ 3,048,808
Capital assets, being depreciated				
Buildings	7,801,269	0	0	7,801,269
Machinery & equipment	3,658,074	0	0	3,658,074
Other improvements	34,131,216	592,020	0	34,723,236
Total capital assets being depreciated	45,590,559	592,020	0	46,182,579
Less accumulated depreciation for:				
Buildings	3,263,623	268,968	0	3,532,591
Machinery & Equipment	3,305,801	93,651	0	3,399,452
Other improvements	13,319,403	1,124,609	0	14,444,012
Total accumulated depreciation	19,888,827	1,487,228	0	21,376,055
Total capital assets being depreciated, Net	25,701,732	(895,208)	0	24,806,524
Total capital assets, Net	$28,740,395	$ (328,728)	$ 556,335	$27,855,332

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port has active construction projects as of December 31, 2014. They include Boat Ramp Expansion, Point Hudson Breakwall, Airport All Weather Observation System (AWOS), Level 3 Bilge Water Project, Level 3 Sims Way Sandfilter Replacement. Level 3 Downspout Installation, Level 3 RX Post Treatment Installation, Level 3 Vault 1 Sandfilter Replacement, Level 3 Tidal Gate.

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

Project	Spent to Date 2014	Remaining Commitment	Funding Source
JCIA - AWOS	230,238	50,000	Federal/State grant
Level 3 – Tidal Gate Repair	2,299	7,000	Reserves
Total	$ 232,537	$ 57,000	

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 Port 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.

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.

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, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

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.

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, 2014, 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
2014	$.00	$127,452	$18,353
2013	$.00	$108,357	$13,416

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, 2014, there are 491 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 crime coverage up to a liability limit of $1,000,000 per occurrence.

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.

Insurance carriers cover all losses over the deductibles as shown on 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

PORT OF PORT TOWNSEND
Notes to the Financial Statements
For the Year Ended December 31, 2014

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*
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	172,294
2019	450,000	145,045	0	0	265,000	162,894
2020-2024	2,525,000	439,310	0	0	1,610,000	628,546
2025-2029	570,000	23,940	0	0	1,995,000	246,541
Total	$4,350,000	$1,287,875	$666,000	$ 52,380	$4,800,000	$1,784,960

* -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 Port is in the process of refunding the 2005 L.T.G.O bonds. This process should be completed by May 31, 2015.

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
2015	435,000	45,000		17,754
2016	455,000	22,750		17,754
2017			397,493	21,251
2018			409,507	9,237
Total	$890,000	$ 67,750	$ 807,000	$ 65,996

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset 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 1.60 for December 31, 2014.

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

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

Year Ending December 31	Contracts Payable Principal	Interest
2015	50,000	8,250
2016	50,000	5,500
2017	50,000	
Total	$ 150,000	$ 13,750

B. Changes in Noncurrent Liabilities

During the year ended December 31, 2014, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$10,292,000	0	$476,000	$9,816,000	$534,000
Revenue Bonds	2,112,000	0	415,000	1,697,000	435,000
Premiums	159,021	0	14,527	144,494	14,527
Discounts	(7,871)	0	(2,249)	(5,622)	(2,249)
Total Bonds Payable	$12,555,150	0	$902,378	$11,651,872	$981,278
Contracts Payable	$221,763	0	$71,763	$150,000	50,000
Compensated Absences	205,721	0	15,284	190,437	21,779
Total Noncurrent Liabilities	$12,982,634	$0	$989,425	$11,992,309	$1,053,057

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 rental revenue on operating leases is as follows:

Year Ending December 31,	Amount
2015	$ 749,462
2016	668,461
2017	627,113
2018	549,625
2019	388,138
2020-2053	4,060,604
Total	$7,043,403

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

The Port's statement of net position reports $475,155 of restricted component of net position in 2014. This is restricted by bond covenants.

NOTE 12 – 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 13 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

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

NOTE 14 – SUBSEQUENT EVENT

On June 17, 2016, the Washington State Department of Ecology (Ecology) issued an Administrative Order (Order Docket No. 13279) requiring preparation of an engineering report to further evaluate and recommend stormwater infrastructure improvements and best management practices (BMPs) necessary to attain permit benchmarks for regulated constituents (i.e., copper and zinc) at the Port of Port Townsend's Boat Haven Boatyard property. The Administrative Order requires the Port to complete an engineering report consistent with Washington Administrative Code (WAC) 173-240-130 addressing the requirements for a Level Three Response under the Boatyard General Permit. The report will evaluate, select, and design (conceptually) stormwater improvements and operational and source controls that will result in attainment of permit benchmarks for regulated constituents.

The Administrative Order requires implementation of the preferred stormwater infrastructure improvements and BMPs identified in the engineering report (which must be approved by Ecology) by September 30, 2017. To assist the Port in addressing this situation, the Port has retained Parametrix (Engineering, Planning & Environmental Sciences) to prepare the Level Three Response engineering report. Failure to comply with Ecology's Administrative Order could result in the imposition of monetary penalties.

Port of Port Townsend
Schedule of Proportionate Share of the Net Pension Liability
Washtington State Public Employees Retirement System - Plan 1
As of June 30, 2015

		2015
Employer's proportion of net pension liability (asset)	%	0.014175%
Employer's proprotionate share of net pension	$	741,484
Employer's covered employee payroll	$	0
Employer's proportionate share of net pension liability as a percentage of covered payroll	%	0
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%

Notes to Schedule:

1. The measurement date is the fiscal year end of the Department of Retirement Systems.

2. Until a full 10 year trend is compiled, the Port can only present information for those years for which information is available. 2015 is the first year of implementation.

Port of Port Townsend
Schedule of Proportionate Share of the Net Pension Liability
Washington State Public Employees Retirement System - Plans 2 and 3
As of June 30, 2015

		2015
Employer's proportion of net pension liability (asset)	%	0.018309%
Employer's proprotionate share of net pension	$	654,191
Employer's covered employee payroll	$	1,627,316
Employer's proportionate share of net pension liability as a percentage of covered payroll	%	40.20%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%

Notes to Schedule:

1. The measurement date is the fiscal year end of the Department of Retirement Systems.

2. Until a full 10 year trend is compiled, the Port can only present information for those years for which information is available. 2015 is the first year of implementation.

Port of Port Townsend
Schedule of Employer Contributions
Washtington State Public Employees Retirement System - Plan 1
As of December 31, 2015

		2015
Statutorily or contractually required contributions	$	73,176
Contributions in relation to the statutorily or contractually required contributions	$	(73,176)
Contribution deficiency (excess)	$	-
Covered payroll	$	-
Contributions as a percent of covered payroll		n/a

Notes to Schedule:

1. The Port does not have any current PERS 1 employees, therefore, covered payroll does not apply.

2. Until a full 10 year trend is compiled, the Port can only present information for those years for which information is available. 2015 is the first year of implementation.

Port of Port Townsend
Schedule of Employer Contributions
Washington State Public Employees Retirement System - Plans 2 and 3
As of December 31, 2015

	2015
Statutorily or contractually required contributions	$ 93,999
Contributions in relation to the statutorily or contractually required contributions	$ (93,999)
Contribution deficiency (excess)	$ -
Covered payroll	$ 1,664,979
Contributions as a percent of covered payroll	5.65%

Notes to Schedule:

1. Until a full 10 year trend is compiled, the Port can only present information for those years for which information is available. 2015 is the first year of implementation.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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