Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Port Townsend

For the period January 1, 2016 through December 31, 2017

Published December 6, 2018

Report No. 1022749

Office of the Washington State Auditor
Pat McCarthy

December 6, 2018

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

State Auditor

Olympia, WA

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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
January 1, 2016 through December 31, 2017

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, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated November 28, 2018.

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

November 28, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Port Townsend
January 1, 2016 through December 31, 2017

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, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Port Townsend, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 November 28, 2018 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

November 28, 2018

FINANCIAL SECTION

Port of Port Townsend
January 1, 2016 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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, 2017. 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 in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and 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 liability activity during the year, including any 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, Washington. The county levies and collects taxes on behalf of the Port. The Port's primary mission is economic development of the citizens of the district and operates under RCW 53.

FINANCIAL HIGHLIGHTS

- In 2017, the Port's overall Operating Revenues were $5,453,511, which was an increase of $2,745 from 2016, and less than budgeted by $80,979. The decrease in revenue was primarily from the Ship and Boat Yards. In January of 2017 there was an accident with the 75-ton Travelift. This accident significantly affected the targeted budget revenue due to work required of staff to replace the Travelift and address related operational issues. In addition, a grant related 3% surcharge on the 300-ton Travelift and modified lift fees expired. The expiration of this surcharge had a greater negative impact to revenue than intended. The effect of these events led the Port to revise the budget in July 2017 to address these issues and changes. The subsequent comparison to 2016 and to the revised budget was that the Port fared relatively well. The Port ended the year within 1% of the revised budget.

- The Port's overall Operating Expenses increased in 2017 to $6,681,831, which was $643,643 more than in 2016 and just over budget by $3,234. The expense increases were budgeted and were primarily for increases in pay from a salary survey conducted in 2015, an increased use of consultants for various projects and an end of year bad debt write off.

- In 2017, the Port received $232,733 in total grant funds from the Federal Aviation Administration, Washington State Department of Transportation and the Washington State Department of Recreation and Conservation Office. These grants were capital grants that are included in the Statement of Revenues, Expenses and Changes in Fund Net Position, as Non-Operating Revenues – Capital Contributions.

- The Port’s 2017 net Non-Operating Income over Non-Operating Expense ended at $1,498,018 (including Capital Contributions), which is $572,651 more than budget. This is primarily due to the non-cash insurance recovery of a replacement 75-ton Travelift for $446,871 and the resulting loss on disposition of the damaged Travelift in the amount of $113,052. Other portions of the increase can be attributed to increases in State Forest Timber Sales and Tax, Finance Charges and other Insurance Recovery amounts that were in cash.

- The Port’s total assets exceeded its total liabilities by $17,780,229 (Net Position) as of December 31, 2017. This is an increase in Net Position from 2016 of $269,698.

- The Port’s total long-term liabilities, net of current portion, was $7,529,629 at year end. The total current portion of those liabilities totaled $1,102,725. Total Non-Current Liabilities were $10,952,165, which includes the Net Pension Liability of $1,352,474.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: Management’s Discussion and Analysis (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 Net Position and the Statement of Cash Flows.

Analysis of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position illustrate whether the Port’s financial position has improved based on the year’s activities. The Statement of Net Position presents information on 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 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 for a separate fund to exist. None of the Port’s separate cash funds meet this definition. Therefore, for purposes of this report, all the Port’s transactions are reported in a single fund.

CONDENSED STATEMENT OF NET POSITION

	2017	2016	Increase (Decrease)
Current Assets	$ 2,542,386	$ 3,296,626	$ (754,240)
Capital Assets	26,111,292	26,076,844	34,448
Total Assets	**28,653,678**	**29,373,470**	**(719,792)**
Deferred Outflows	**302,735**	**386,836**	**(84,101)**
Current Liabilities	1,899,111	1,743,956	155,155
Non-current Liabilities	9,053,054	10,473,206	(1,420,152)
Total Liabilities	**10,952,165**	**12,217,162**	**(1,264,997)**
Deferred Inflows	**224,019**	**32,613**	**191,406**
Net Investment in Capital Assets	17,546,917	16,420,105	1,126,812
Unrestricted	233,312	1,090,426	(857,114)
Total Net Position	**17,780,229**	**17,510,531**	**269,698**
Total Liabilities, Deferred Inflows of Revenues and Net Position	**$ 28,956,413**	**$ 29,760,306**	**$ (803,893)**

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2017, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased in 2017 by $269,698 when compared to Operating and Non-Operating activities in 2016. This increase resulted in an ending Net Position of $17,780,229. Of this amount, $17,546,917 reflects the Port's investment in capital assets, net of related debt. This equals 99% of the Port's total Net Position, which is improved by 5% from 2016.

The Port had Capital Assets of $26,111,292, net of accumulated depreciation, as of December 31, 2017. In 2017, capital assets net book value increased by $34,448.

In 2017, the Port's total current liabilities increased by $155,155. Current liabilities include payments for expenses already incurred, customer deposits, accrued interest on the Port's bonds, bond principal payment amounts due in 2018, and any known employee termination payouts due in 2018. This increase is primarily due to increased accounts payable due in 2018.

During the year, the Port's non-current liabilities decreased by $1,420,152 which was primarily due to decreases in long term bond debt due in 2018, which is reflected in the current portion of liabilities, and a decrease in net pension liability. The decrease in net pension liability was in the amount of $330,880; the remainder was changes in bond debt.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2017	2016	Increase (Decrease)
Revenues			
Operating revenues			
Airport	$ 134,175	$ 135,754	$ (1,579)
Marina & work/ship yard	4,206,840	4,286,286	(79,446)
Property lease & rental	1,112,496	1,028,726	83,770
Total operating revenues	5,453,511	5,450,766	2,745
Non-Operating revenues			
Investment income	12,523	8,014	4,509
Property tax levied	963,581	933,800	29,781
Other taxes	67,507	68,802	(1,295)
Other non-operating revenue	694,638	97,614	597,024
Contributed capital	232,733	240,336	(7,603)
Total non-operating revenues	1,970,982	1,348,566	622,416
Total Revenues	**$ 7,424,493**	**$ 6,799,332**	**$ 625,161**
Expenses			
Operating expenses			
General operations	2,673,077	2,526,376	146,701
Maintenance	822,857	778,858	43,999
Administrative & general	1,581,243	1,189,971	391,272
Depreciation	1,604,654	1,542,983	61,671
Total operating expenses	6,681,831	6,038,188	643,643
Non-operating expenses			
Interest charges	341,944	364,257	(22,313)
Election expense	11,951	-	11,951
Other non-operating expenses	119,069	29,172	89,897
Total non-operating expenses	472,964	393,429	79,535
Total expenses	**$ 7,154,795**	**$ 6,431,617**	**$ 723,178**
Change in net position	**269,698**	**367,715**	**(98,017)**
Net position - beginning	**17,510,531**	**17,142,816**	**367,715**
Change in Accounting Principle	**-**	**-**	**-**
Net position - ending	**$ 17,780,229**	**$ 17,510,531**	**$ 269,698**

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 2017 increased by $2,745 or less than 1% over 2016. Operating revenues in 2017 did not increase as much as budgeted due to the Travelift accident at the beginning of the year, the cessation of a grant related 3% surcharge for heavy lifts, as well as significant staffing changes that affected revenue performance.

Total Operating Expenses increased by $643,643 or 11% in 2017, primarily from increased personnel costs and contracted services both of which were budgeted. They were only slightly over the revised budget by $3,234.

Total Non-operating revenues increased by $622,416 which was primarily from the replacement of the 75-ton Travelift (a non-cash insurance recovery), the Jefferson County Public Infrastructure Fund (PIF) grant for the Quilcene Wastewater Feasibility Study and the Community Economic Revitalization Board (CERB) grant for Point Hudson.

All the functions of the Port are considered in the numbers shown on the previous pages, including the cost of general government of the Port District. Ports in Washington State are considered special purpose districts that are proprietary funds, not governmental like cities or counties. However, the Port, even as a proprietary fund, has a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance and public meeting expenses. All 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 that state separately issued debt and separately issued classified assets are needed for a separate fund to exist. Most of these governmental costs are contained in the General and Administrative line item shown on the Port's financial reports.

The Port faced some extraordinary operational challenges in 2017. Still, the organization recognized these challenges, executed a mid-year budget revision, and finished the year within 1% of the revised budget. Management and operational changes are bearing fruit and operating revenues are up 11% year to date in April 2018, as of the writing of this report. The financial data and other operational metrics indicate that 2017 was indeed an anomalous year.

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:

- The Port faces a long list of capital projects needed to maintain the current complexity of operations which includes three (3) marinas, a boat and ship yard, properties, an airport and boat ramps throughout the county. Like many rural jurisdictions, the Port must plan for these capital needs in the face of declining federal and state support.

- 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 docks were replaced, using bond funds. However, the remaining portions of the marina, including the Commercial Dock and the C & D docs, are currently not envisioned for complete replacement, for at least another seven (7) 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 have not opened new business opportunities nor any new revenues, to service the debt. Therefore, competitive business practices and the operating revenue will need to be increased more dramatically in coming years.

- The Port of Port Townsend owns and operates a ship and boat work yard, where both vessel owners and marine trade vendors may work on vessels. The Washington State Department of

Ecology (DOE) regulates storm water discharge from boat yards such as the Port's by monitoring compliance with benchmarks set for various contaminants in a Boat Yard General Permit. The Port has made significant capital and operational investments to reduce the contaminant load in the storm water discharge. Still, the number of samples with results above the established benchmarks has exceeded the amount permissible under the Boat Yard General Permit. As such, the DOE issued an Administrative Order for Modification of Permit Coverage, Level 3, on June 17, 2016. The Port responded with the required engineering report and implementation of the recommended treatment system. The system is currently being monitored and modified as necessary to enhance its performance.

- The breakwater protecting the marina at Point Hudson is rapidly deteriorating and is identified as part of the Port's Capital Improvement Program. The Port currently has $1.1 million in grant funding (USFWS Boating Infrastructure Grant Tier II), for Phase I, which is insufficient to complete either Phase I or II. The Port will likely seek additional funding and postpone construction to the 2019-20 season.

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 the Port's accountability for the money it receives. If you have any question about this report, or if you need additional financial information, please contact the 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

For the year ended December 31, 2016

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, 2016. 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 in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and 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 liability activity during the year, including any 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, Washington. The county levies and collects taxes on behalf of the Port. The Port's primary mission is economic development of the citizens of the district and operates under RCW 53.

FINANICAL HIGHLIGHTS

- In 2016, the Port's overall Operating Revenues were $5,450,766, which was an increase of $321,619 from 2015, and greater than budgeted by $33,160. The increase in revenue was primarily from the Point Hudson and Boat Haven Marinas and Properties where the level of activity has continued to show slight increases for the last several years.

- The Port's overall Operating Expenses increased in 2016 to $6,038,188, which was $409,552 more than in 2015 and more than budgeted by $19,957. Most of this increase was due to abandoned boats that were demolished.

- In 2016, the Port received $240,336 in total grant funds from the Federal Aviation Administration and the Washington State Department of Recreation and Conservation Office. These grants were capital grants that are included in the Statement of Revenues, Expenses and Changes in Fund Net Position, as Non-Operating Revenues – Capital Contributions.

- The Port's 2016 net Non-Operating Income over Non-Operating Expense ended at $955,138 (including Capital Contributions), which is $94,671 more than budget. This is primarily due to increases in State Forest Timber Sales, Finance Charges and an Insurance Recovery.

- The Port's total assets exceeded its total liabilities by $17,510,531 (Net Position) as of December 31, 2016. This is an increase from 2015 of $367,716.

- The Port's total long term liabilities, net of current portion, was $8,789,852 at year end. The total current portion of those liabilities totaled $1,124,257. Total Non-Current Liabilities were $10,473,206, which includes the Net Pension Liability of $1,683,354.

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 Net Position and the Statement of Cash Flows.

Analysis of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position illustrate whether the Port's financial position has improved based on the year's activities. The Statement of Net Position presents information on 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 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 for a separate fund to exist. None of the Port's separate cash funds meet this definition. Therefore, for purposes of this report, all the Port's transactions are reported in a single fund.

PORT OF PORT TOWNSEND CONDENSED STATEMENT OF NET POSITION

	2016	2015
Current Assets	$ 3,296,626	$ 2,608,787
Capital Assets	26,076,844	27,100,232
Total Assets	**29,373,470**	**29,709,019**
Deferred Outflows	**386,836**	**291,548**
Current Liabilities	1,743,956	1,380,754
Non-current Liabilities	10,473,206	11,261,793
Total Liabilities	**12,217,162**	**12,642,547**
Deferred Inflows	**32,613**	**215,205**
Net Investment in Capital Assets	16,420,105	16,798,650
Unrestricted	1,090,426	344,165
Total Net Position	**17,510,531**	**17,142,815**
Total Liabilities, Deferred Inflows and Net Position	**$ 29,760,306**	**$ 30,000,567**

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2016, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $367,716 from Operating and Non-Operating activities in 2016, that resulted in an ending Net Position of $17,510,531. Of this amount, $16,420,105 reflects the Port's investment in capital assets, net of related debt. This equals 94% of the Port's total Net Position, which is improved by 4% from 2015.

The Port had Capital Assets of $26,076,844, net of accumulated depreciation, as of December 31, 2016. In 2016, capital assets net book value decreased by $1,023,388.

In 2016, the Port's total current liabilities increased by $363,202. Current liabilities include payments for expenses already incurred, customer deposits, accrued interest on the Port's bonds, bond principal payment amounts due in 2017, and known employee termination payouts due in 2017. This increase is primarily due to increased bond principal due in 2017.

During the year, the Port's non-current liabilities decreased by $788,587 which was primarily due to decreases in long term bond debt due in 2017 and therefore reflected in the current portion of liabilities. This $1,102,711 decrease in the long-term liability portion was offset by an increase in the Net Pension Liability of $287,678 and a $26,446 increase in Employee Leave Benefits.

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

	2016	2015
Revenues		
Operating revenues		
Airport	$ 135,754	$ 130,727
Marina & work/ship yard	4,286,286	4,089,367
Property lease & rental	1,028,726	909,053
Total operating revenues	5,450,766	5,129,147
Non-Operating revenues		
Investment income	8,014	3,327
Property tax levied	933,800	922,286
Other taxes	68,802	103,610
Other non-operating revenue	97,614	78,333
Contributed capital	240,336	226,355
Total non-operating revenues	1,348,566	1,333,911
Total Revenues	**$ 6,799,332**	**$ 6,463,058**
Expenses		
Operating expenses		
General operations	2,526,376	2,871,845
Maintenance	778,858	192,564
Administrative & general	1,189,971	1,041,216
Depreciation	1,542,983	1,523,011
Total operating expenses	6,038,188	5,628,636
Non-operating expenses		
Interest charges	364,257	398,506
Election expense	-	6,398
Other non-operating expenses	29,172	59,862
Total non-operating expenses	393,429	464,766
Total expenses	**$ 6,431,617**	**$ 6,093,402**
Change in net position	**367,715**	**369,656**
Net position - beginning	**17,142,816**	**18,191,441**
Change in Accounting Principle	**-**	**(1,418,281)**
Net position - ending	**$ 17,510,531**	**$ 17,142,816**

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 2016 increased by $321,619 or 6% over 2015, primarily from increased Marina and Yard operations.

Total Operating Expenses increased by $409,552 or 7% in 2016, primarily from increased personnel costs and contracted services. However, they were also only slightly over budget by 0.19%, or $12,080.

Total Operating revenues increased by $321,619 which was primarily from increased activity in the marinas and properties.

All 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. Ports in Washington State are considered Special Purpose Districts that are Proprietary Funds, not governmental like cities or counties. However, the Port, even as a proprietary fund, has a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance and public meeting expenses. All 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 that state separately issued debt and separately issued classified assets are needed for a separate fund to exist. Most of these governmental costs are contained in the General and Administrative line item 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 considerably 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 docks were replaced, using bond funds. However, the remaining portions of the marina, including the Commercial Dock and the C & D docs, are currently not envisioned for complete replacement, for at least another eight (8) 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, to keep up with the increasing operating costs.

- The Port of Port Townsend owns and operates a boat work yard, where vessel owners and marine trade vendors may work on vessels. The Washington State Department of Ecology (DOE) regulates storm water discharge from boat yards such as the Port's by monitoring compliance with benchmarks set for various contaminants in a Boat Yard General Permit. The Port has made significant capital and operational investments to reduce the contaminant load in the storm water discharge. Still, the number of samples with results above the established benchmarks has exceeded the amount permissible under the Boat Yard General Permit. As such, 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 and to implement that plan by September 30, 2017.

- The breakwater protecting the marina at Point Hudson is rapidly deteriorating and is identified as part of the Port's Capital Improvement Program. The project will be constructed in two (2) phases with the first beginning in July 2018. Phase I (south jetty) is currently estimated at $3.8 million and Phase II (north jetty) at $1.7 million. The Port currently has $1.1 million in grant funding (USFWS Boating Infrastructure Grant Tier II), for Phase I. The Port will likely seek to bond for the remaining $2.7 million with funds available in 2018.

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 how the Port's accountability for the money it receives. If you have any question about this report, or if you need additional financial information, please contact the 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.

PORT OF PORT TOWSEND
FINANCIAL STATEMENTS
For the year ended December 31, 2017

STATEMENT OF NET POSITION
December 31, 2017

CURRENT ASSETS:		
Cash and Cash Equivalents	$	618,815
Investments		1,206,767
Accounts Receivable		350,498
Property Taxes Receivable		14,210
Interest Receivable		-
Due from Other Governments		193,122
Inventories		2,680
Prepaid Expenses		156,294
Total Current Assets	$	2,542,386
NONCURRENT ASSETS:		
Capital Assets Not Being Depreciated		
Land		2,505,970
Construction in Progress		1,310,974
Capital Assets Being Depreciated		
Buildings		7,786,041
Other Improvements		36,066,008
Equipment		4,287,151
Less: Accumulated Depreciation		(25,844,852)
Total Noncurrent Assets	$	26,111,292
TOTAL ASSETS	$	28,653,678
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount - Bond Refunding		67,979
Deferred amount - Pension		234,756
Total Deferred Outflows of Resources	$	302,735

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

STATEMENT OF NET POSITION *(continued)*
December 31, 2017

CURRENT LIABILITIES:		
Accounts Payable	$	521,758
Contracts Payable		16,193
Bond Interest Payable		77,143
Customer Deposits		167,438
Unearned Revenue		4,560
Current Portion - Employee Leave Benefits		9,294
Current Portion of Long-Term Debt		1,102,725
Total Current Liabilities	$	1,899,111
NONCURRENT LIABILITIES:		
G.O. Bonds, net of Current Portion		7,529,629
Employee Leave Benefits		170,951
Net Pension Liability		1,352,474
Total Noncurrent Liabilities	$	9,053,054
Total Liabilities	$	10,952,165
DEFERRED INFLOWS:		
Deferred Inflows - Pension		224,019
NET POSITION:		
Net investment in capital assets		17,546,917
Unrestricted net position		233,312
TOTAL NET POSITION	$	17,780,229

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, 2016

CURRENT ASSETS:		
Cash and Cash Equivalents	$	**967,160**
Investments		**1,828,794**
Accounts Receivable		**318,610**
Property Taxes Receivable		**10,807**
Interest Receivable		**1,132**
Due from Other Governments		**31,634**
Inventories		**3,717**
Prepaid Expenses		**134,773**
Total Current Assets	**$**	**3,296,626**
NONCURRENT ASSETS:		
Capital Assets Not Being Depreciated		
Land		**2,505,970**
Construction in Progress		**364,061**
Capital Assets Being Depreciated		
Buildings		**7,815,475**
Other Improvements		**35,807,954**
Equipment		**4,025,433**
Less: Accumulated Depreciation		**(24,442,049)**
Total Noncurrent Assets	**$**	**26,076,844**
TOTAL ASSETS	**$**	**29,373,470**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount - Bond Refunding		**77,043**
Deferred amount - Pension		**309,793**
Total Deferred Outflows of Resources	$	**386,836**

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

MCAG No. 1727

PORT OF PORT TOWNSEND
Statement of Net Position
December 31, 2016

CURRENT LIABILITIES:		
Accounts Payable	$	377,431
Contracts Payable		0
Bond Interest Payable		87,668
Customer Deposits		150,194
Unearned Revenue		4,406
Current Portion - Employee Leave Benefits		21,546
Current Portion of Long-Term Debt		1,102,711
Total Current Liabilities	$	1,743,956
NONCURRENT LIABILITIES:		
G.O. Bonds, net of Current Portion		8,221,564
Revenue Bonds, net of Current Portion		409,507
Employee Leave Benefits		158,781
Net Pension Liability		1,683,354
Total Noncurrent Liabilities	$	10,473,206
Total Liabilities	$	12,217,162
DEFERRED INFLOWS:		
Deferred Inflows - Pension		32,613
NET POSITION:		
Net investment in capital assets		16,420,105
Unrestricted net position		1,090,426
TOTAL NET POSITION		17,510,531

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017

Operating Revenues:		
Airport Operations	$	134,175
Marina, Work Yard, Ship Yard Operations		4,206,840
Property Lease / Rental Operations		1,112,496
Total Operating Revenues	$	5,453,511
Operating Expenses:		
General Operations		2,673,077
Maintenance		822,857
Administrative		1,581,243
Depreciation		1,604,654
Total Operating Expenses	$	6,681,831
Operating Income	$	(1,228,320)
Non-Operating Revenues (Expenses):		
Investment Income		12,523
Taxes Levied for General Purposes		963,581
Timber Revenues on State & County Property		67,507
Interest Expense		(341,944)
Election Expense		(11,951)
Gain/Loss on Disposition of Assets		(111,052)
Other Revenue & Expense - Net		686,621
Total non-operating revenues (expenses)	$	1,265,285
Income before capital contributions	$	36,965
Capital contributions		232,733
Increase in Net Position	$	269,698
Net Position - Beginning of Year		17,510,531
Net Position - End of Year	$	17,780,229

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

PORT OF PORT TOWNSEND
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2016

Operating Revenues:		
Airport Operations	$	135,754
Marina, Work Yard, Ship Yard Operations		4,286,286
Property Lease / Rental Operations		1,028,726
Total Operating Revenues	$	5,450,766
Operating Expenses:		
General Operations		2,526,376
Maintenance		778,858
Administrative		1,189,971
Depreciation		1,542,983
Total Operating Expenses	$	6,038,188
Operating Income	$	(587,422)
Non-Operating Revenues (Expenses):		
Investment Income		8,014
Taxes Levied for General Purposes		933,800
Timber Revenues on State & County Property		68,802
Interest Expense		(364,257)
Election Expense		-
Gain on Disposition of Assets		-
Other Revenue & Expense - Net		68,443
Total non-operating revenues (expenses)	$	714,802
Income before capital contributions	$	127,380
Capital contributions		240,336
Increase in Net Position	$	367,716
Net Position - Beginning of Year		17,142,815
Net Position - End of Year	$	17,510,531

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

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	2017
Cash Flow From Operating Activities	
Receipts from Customers	**$ 5,462,225**
Customer Deposits	**(17,244)**
Payments to Suppliers	**(1,869,449)**
Payments to Employees	**(3,049,346)**
Net Cash Provided by Operating Activities	**$ 526,186**
Cash Flow From Noncapital Financing Activities	
Proceeds From Property Taxes	**960,178**
Proceeds From Miscellaneous Taxes	**67,507**
Miscellaneous Receipts/Expense, Net	**63,569**
Net Cash Provided by Noncapital Financing Activities	**$ 1,091,254**
Cash Flow From Capital and Related Financing Activities	
Purchases and Construction of Capital Assets	**(1,207,523)**
Principal Paid on Capital Debt	**(1,074,493)**
Interest Paid on Capital Debt	**(380,867)**
Debt Issue Costs	**-**
Other receipts (payments)	**61,416**
Net Cash Provided (Used) by Capital and Related Financing Activities	**$ (2,601,467)**
Cash Flow From Investing Activities	
Interest Earnings	**13,655**
Net Cash Provided by Investing Activities	**$ 13,655**
Net Increase (Decrease) in Cash	**(970,372)**
Balance of Cash - Beginning of Year	**2,795,954**
Balance of Cash - End of Year	**$ 1,825,582**

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

Operating Income/(Loss)	**$ (1,228,320)**
Adjustments to Reconcile Operating Loss to Net Cash	
Provided by Operating Activities:	
Depreciation	**1,604,654**
Changes in Assets and Liabilities:	
(Increase) decrease Receivables	**16,427**
(Increase) decrease Inventories	**1,038**
(Increase) decrease Prepaid Expenses	**(21,521)**
Increase (decrease) Accounts and Other Payables	**153,908**
Net Cash Provided by Operating Activities	**$ 526,186**

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

PORT OF PORT TOWNSEND
Statement of Cash Flows
For The Year Ended December 31, 2016

	2016
Cash Flow From Operating Activities	
Receipts from Customers	$ 5,266,847
Customer Deposits	(3,863)
Payments to Suppliers	(1,793,251)
Payments to Employees	(2,724,250)
Net Cash Provided by Operating Activities	$ 745,483
Cash Flow From Noncapital Financing Activities	
Proceeds From Property Taxes	943,849
Proceeds From Miscellaneous Taxes	75,530
Miscellaneous Receipts/Expense, Net	65,937
Net Cash Provided by Noncapital Financing Activities	$ 1,085,316
Cash Flow From Capital and Related Financing Activities	
Purchases and Construction of Capital Assets	(527,186)
Principal Paid on Capital Debt	(625,000)
Interest Paid on Capital Debt	(412,459)
Debt Issue Costs	-
Other receipts (payments)	429,728
Net Cash Provided (Used) by Capital and Related Financing Activities	$ (1,134,917)
Cash Flow From Investing Activities	
Interest Earnings	7,151
Net Cash Provided by Investing Activities	$ 7,151
Net Increase (Decrease) in Cash	703,033
Balance of Cash • Beginning of Year	2,092,921
Balance of Cash · End of Year	$ 2,795,954

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

Operating Income/(Loss)	$ (587,422)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	1,542,983
Changes in Assets and Liabilities:	
(Increase) decrease Receivables	(170,640)
(Increase) decrease Inventories	(735)
(Increase) decrease Prepaid Expenses	(224)
Increase (decrease) Accounts and Other Payables	(38,479)
Net Cash Provided by Operating Activities	$ 745,483
	(745,483)

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant account policies are described below.

A. Reporting Entity

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 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 Board of Commissioners with three members each 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 which is planned for future industrial park development. The Port also owns and operates the 30-acre Point Hudson facility, located at the east end of downtown Port Townsend. This facility offers approximately 4,000 linear feet of boat moorage, 50 recreational vehicles sites, and additional marine related and commercial property rentals. In Quilcene, the Port owns and operates a small, warm water marina with a boat ramp, and alongside it is a leased property for an oyster cultivating operation. Finally, the Port owns six (6) 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 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 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, Fund Balance and Net Position

1. Cash and Cash Equivalents

It is the policy of the Port to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding $1,206,767 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.

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

3. 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.

4. Amounts Due from Other Governmental Units
   This account includes amounts due from other governments for grants and inter-local agreements.

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

6. 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.

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

8. Deferred Outflows/Inflows of Resources
   The Port reports deferred outflows and deferred inflows separately on the Statement of Net Position as required by GASB No. 65, which it implemented in 2013. Deferred outflows represent a consumption of net assets that applies to a future period(s). Conversely, deferred inflows represent an acquisition of net assets that applies to a future period(s). 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.

9. Employee Leave Benefits
   Employee leave benefits 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.

10. Pensions – See Note 7, *Pension Plans*

    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.

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

12. Unearned Revenues
    At December 31, 2017, the Port held $4,560 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2018.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits
   Cash on hand at December 31, 2017 was $618,815.

B. Custodial Credit Risk

   Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the district would not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The district's deposits and certificates of deposit are all covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

C. Investments
   The majority of the Port's investments are with the Washington State Local Government Investment Pool (LGIP) which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool an adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

   Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawls.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at http://www.tre.wa.gov .

The Port's investments as of December 31, 2017 are as follows:

Washington State Treasurer's Investment Pool and the US Bank – Certificate of Deposit totaled $1,206,767.

$ 1,203,114	Washington Local Government Investment Pool
3,653	US Bank – C.D. (IDC)

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% 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 2017 was approximately $0.198 per $1,000 of A.V., on an assessed valuation of $4,851,434,878 for a total regular budgeted tax levy of $960,588.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives by more than 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 based on the following estimated useful lives:

Buildings & Structures	10 to 50 years
Machinery and Equipment	3 to 15 years
Improvements	5 to 50 years

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital Assets, not being depreciated:				
Land	$ 2,505,969	$ 0	$ 0	$ 2,505,969
Construction in progress	364,061	1,196,377	249,464	1,310,974
Total capital assets not being depreciated	$ 2,870,030	1,196,377	249,464	$ 3,816,943
Capital assets, being depreciated				
Buildings	7,815,475	0	29,434	7,786,041
Machinery & equipment	4,025,433	547,233	285,605	4,287,061
Other improvements	35,807,955	258,054	0	36,066,009
Total capital assets being depreciated	47,648,863	805,286	315,039	48,139,110
Less accumulated depreciation for:				
Buildings	4,072,066	269,915	29,434	4,312,547
Machinery & Equipment	3,605,079	158,177	113,052	3,650,204
Other improvements	16,764,905	1,117,197	0	17,882,102
Total accumulated depreciation	24,442,050	1,545,289	142,486	25,844,853
Total capital assets being depreciated, Net	23,206,813	(740,003)	172,553	22,294,257
Total capital assets, Net	$26,076,843	$ 456,374	$ 422,017	$26,111,200

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port had the following active projects as of December 31, 2017: Point Hudson South Jetty Breakwater, Jefferson County International Airport (JCIA) Runway Rehabilitation, and Level 3 Stormwater. Only the Level 3 Stormwater was an active construction project at year end; the others were in design, planning and permitting stages.

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

Project	Spent to Date 2017	Remaining Commitment	Funding Source
Level 3 Stormwater	$ 145,450	$ 22,450	Port Reserves

This project was awarded September 7, 2017, and commenced September 18, 2017.

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 2017:

Aggregate Pension Amounts – All Plans		
Pension liabilities	$	(1,352,472)
Pension assets	$	-
Deferred outflows of resources	$	234,948
Deferred inflows of resources	$	(224,020)
Pension expense/expenditures	$	171,127

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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**

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 in accordance with 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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer Plans 2/3**	**Employee Plan 2**
January - June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**
July - December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.70%**	**7.38%**

The Port's actual PERS plan contributions were $98,088 to PERS Plan 1 and $137,476 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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.

- For all plans except LEOFF Plan 1, the method for determining valuation of terminated and vested members was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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%	6.30%
Private Equity	23%	9.30%
	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	$ 848,449	$ 696,483	$ 564,847
PERS 2/3	$ 1,767,305	$ 655,990	$ (254,568)

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, 2017, the Port's reported a total pension liability of $1,352,474 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 696,483
PERS 2/3	$ 655,990

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.014248%	0.014678%	0.000430%
PERS 2/3	0.018236%	0.018880%	0.000644%

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, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Port's recognized pension expense as follows:

	Pension Expense
PERS 1	$ 67,300
PERS 2/3	103,828
Total all plans	$ 171,127

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, 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	$ -	$ (25,991)
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 51,243	$
TOTAL	$ 51,243	$ (25,991)

PERS 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 66,467	$ (21,574)
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (174,871)
Changes of assumptions	$ 6,968	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 35,561	$ (1,584)
Contributions subsequent to the measurement date	$ 76,293	$ -
TOTAL	$ 185,289	$ (198,029)

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, 2017. 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
2018	$ (17,568)	$ (58,165)
2019	5,547	25,040
2020	(1,288)	(11,584)
2021	(12,681)	(66,571)
2022	-	9,672
Thereafter	-	12,574
Total	**$ (25,991)**	**$ (89,033)**

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, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

- $1,000,000 deductible on liability loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $995,000 on a liability loss.
- $250,000 deductible on property loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $245,000 on a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

A. Long-Term Liabilities

The Port issues general obligation and revenue bonds to finance acquisition, purchase or construction of various projects. Bond indebtedness has also been created 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	$232,000
2010 Series – Reconstruction of PTBH Marina, Travel Lift Dock, and related upland improvements	2029	.85%-6.125%	$5,515,000	$235,000-430,000
2015 Series – Refunding of 2005 Series	2025	3.00%	$4,115,000	$430,000-535,000

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	2010 Series* Principal	2010 Series* Interest
2018	430,000	115,650	235,000	207,238
2019	450,000	102,750	265,000	197,838
2020	460,000	89,250	295,000	187,237
2021	475,000	75,450	310,000	175,437
2022	490,000	61,200	320,000	161,488
2023-2027	1,550,000	94,050	1,835,000	571,456
2028-2029	0	0	845,000	78,094
Total	$3,855,000	$538,350	$4,105,000	$1,578,788

* *These bonds offer a Build America Bond rebate which the Port applies for and receives 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. Most 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 these 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 Travelift 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. 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 resulted in a savings of $406,934 over the life of the bond. Part of the 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	$409,507

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

Year Ending December 31	2013 Series	
	Principal	Interest
2018	409,507	9,237

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.

B. Changes in Noncurrent Liabilities

During the year ended December 31, 2017, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$ 8,587,000	$ 0	$ 575,000	$ 8,012,000	$627,000
Revenue Bonds	807,000	0	397,493	409,507	409,507
Premiums	286,409	0	26,935	259,474	26,935
Discounts	0	0	0	0	0
Total Bonds Payable	$9,680,409	$ 0	$ 999,428	$ 8,680,981	$1,063,442
Contracts Payable	$ 50,000	0	$ 50,000	$ 0	$ 0
Net Pension Liability	1,683,354	0	330,880	1,352,474	0
Compensated Absences	180,328	21,463	21,546	180,245	21,546
Total Noncurrent Liabilities	$11,594,091	$ 21,463	$1,401,854	$10,213,700	$ 1,084,988

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 2057. Minimum future rental revenue on operating leases is as follows:

Year Ending December 31	Amount
2018	$ 813,276
2019	711,268
2020	617,360
2021	549,138
2022	478,313
2023 - 2057	5,800,449
Total	$ 8,969,804

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

At fiscal year ended December 31, 2017, the Port had no restricted component of net position to report.

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 may 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 periodically participates in several 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, 2017, the Port held $4,560 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2018.

NOTE 15 – CHANGE IN PRESENTATION

Starting in 2016, the Port began an accounting code system for expenses that allows a more precise tracking of all maintenance port-wide. This allows for a more accurate picture of maintenance costs of the Port. As such, when reviewing the Statement of Revenues, Expenses and Changes in Fund Net Position, there is a significant increase in the "Maintenance" costs from previous years and there is a reduction in "General Operations" costs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant account policies are described below.

A. Reporting Entity

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 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 Board of Commissioners with three members each 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 which is planned for future industrial park development. The Port also owns and operates the 30-acre Point Hudson facility, located at the east end of downtown Port Townsend. 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 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 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, Fund Balance and Net Position

Cash and Cash Equivalents

It is the policy of the Port to invest all temporary cash surpluses. At December 31, 2016, the treasurer was holding $1,828,794 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
The Port reports deferred outflows and deferred inflows separately on the Statement of Net Position as required by GASB No. 65, which it implemented in 2013. Deferred outflows represent a consumption of net assets that applies to a future period(s). Conversely, deferred inflows represent an acquisition of net assets that applies to a future period(s). 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.

Employee Leave Benefits
Employee leave benefits 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*
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
At December 31, 2016, the Port held $4,406 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2017.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits
Cash on hand at December 31, 2016 was $967,160.

Custodial Credit Risk
Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the district would not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The district's deposits and certificates of deposit are all covered by the 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 majority of the Port's investments are with the Washington State Local Government Investment Pool (LGIP) which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov .

The Port's investments as of December 31, 2016 are as follows:

Washington State Treasurer's Investment Pool and the US Bank – Certificate of Deposit totaled $1,828,794.

$ 1,825,143	Washington Local Government Investment Pool
3,651	US Bank – C.D. (IDC)

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 2016 was approximately $0.202 per $1,000 of A.V., on an assessed valuation of $4,639,591,919 for a total regular budgeted tax levy of $948,000.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives by more than 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 based on the following estimated useful lives:

Buildings & Structures	10 to 50 years
Machinery and Equipment	3 to 15 years
Improvements	5 to 50 years

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Capital Assets, not being depreciated:				
Land	$ 2,505,969	$ 0	$ 0	$ 2,505,969
Construction in progress	955,299	476,950	1,068,188	364,061
Total capital assets not being depreciated	$ 3,461,268	476,950	1,068,188	$ 2,870,030
Capital assets, being depreciated				
Buildings	7,815,475	0	0	7,815,475
Machinery & equipment	3,696,373	329,060	0	4,025,433
Other improvements	35,026,182	781,773	0	35,807,955
Total capital assets being depreciated	46,538,030	1,110,833	0	47,648,863
Less accumulated depreciation for:				
Buildings	3,802,151	269,915	0	4,072,066
Machinery & Equipment	3,497,042	108,037	0	3,605,079
Other improvements	15,599,873	1,165,032	0	16,764,905
Total accumulated depreciation	22,899,066	1,542,983	0	24,442,049
Total capital assets being depreciated, Net	23,638,964	(432,150)	0	23,206,814
Total capital assets, Net	$27,100,232	$ 44,799	$ 1,068,188	$26,076,844

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port had the following active projects as of December 31, 2016: Point Hudson Breakwater, Commercial Basin Breakwater Repair, and Level 3 Stormwater. Only the Commercial Basin Breakwater Repair was an active construction project at year end; the others were in design, planning and permitting stages.

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

Project	Spent to Date 2016	Remaining Commitment	Funding Source
Commercial Basin Breakwater Repair	$ 0	$ 216,109	Port Reserves

This project was awarded December 6, 2016 and commenced January 9, 2017.

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 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 1,683,354
Pension assets	$ -
Deferred outflows of resources	$ 309,793
Deferred inflows of resources	$ 32,613
Pension expense/expenditures	$ 177,724

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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

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

The Port's actual contributions to the plan were $78,005 for the year ended December 31, 2016.

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 in accordance with 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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

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

The Port's actual contributions to the plan were $101,881 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, 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 only change that affected the Port's plans are that for all systems, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

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, 2016, 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	$ 922,736	$ 765,185	$ 629,602
PERS 2/3	$ 1,690,513	$ 918,168	$ (477,960)

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, 2016, the Port's reported a total pension liability of $1,683,354 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 765,185
PERS 2/3	$ 918,168

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.014175%	0.014248%	0.000073%
PERS 2/3	0.018309%	0.018236%	-0.000073%

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, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the Port's recognized pension expense as follows:

	Pension Expense
PERS 1	$ 48,820
PERS 2/3	133,904
Total all plans	$ 177,724

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, 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	$ 19,266	$ -
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 43,900	$
TOTAL	$ 63,167	$ -

PERS 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 48,892	$ (30,310)
Net difference between projected and actual investment earnings on pension plan investments	$ 112,357	$ -
Changes of assumptions	$ 9,490	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 20,328	$ (2,303)
Contributions subsequent to the measurement date	$ 57,337	$ -
TOTAL	$ 248,404	$ (32,614)

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, 2017. 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 Inflows	PERS 1 Outflows	PERS 2/3 Inflows	PERS 2/3 Outflows
2017	$ -	$ (4,744)	$ (10,192)	$ 18,576
2018	-	(4,744)	(10,192)	18,576
2019	-	17,694	(10,192)	98,770
2020	-	11,060	(2,038)	55,145
2021	-	-	-	-
Thereafter	-	-	-	-
Total	**$ -**	**$ 19,266**	**$ (32,614)**	**$ 191,067**

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, 2016, there are 524 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.
- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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.

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 created 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

<u>Note:</u> 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
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	187,237
2021	475,000	75,450	0	0	310,000	175,437
2022-2026	2,040,000	155,250	0	0	1,755,000	656,687
2027-2029	0	0	0	0	1,245,000	154,350
Total	$3,990,000	$658,050	$232,000	$ 9,002	$4,365,000	$1,796,425

* *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. Most 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 these 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 Travelift 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. 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 the 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
2017	397,493	21,251
2018	409,507	9,237
Total	$ 807,000	$ 30,488

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
2017	50,000	2,750
Total	$ 50,000	$ 2,750

B. Changes in Noncurrent Liabilities

During the year ended December 31, 2016, the following changes occurred in noncurrent liabilities:

	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$ 9,162,000	$ 0	$ 575,000	$ 8,587,000	$ 627,000
Revenue Bonds	807,000	0	0	807,000	397,493
Premiums	318,855	0	32,446	286,409	28,218
Discounts	0	0	0	0	0
Total Bonds Payable	$10,287,855	$ 0	$ 607,446	$ 9,680,409	$1,052,711
Contracts Payable	$ 100,000	0	$ 50,000	$ 50,000	$50,000
Net Pension Liability	1,395,676	287,678	0	1,683,354	0
Compensated Absences	182,499	47,993	50,163	180,328	21,456
Total Noncurrent Liabilities	$11,966,030	$ 335,671	$ 707,609	$11,594,091	$ 1,124,167

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
2017	$ 773,913
2018	654,475
2019	531,722
2020	496,846
2021	437,791
2022 - 2053	6,091,033
Total	$ 8,985,780

NOTE 11 – RESTRICTED COMPONENT OF NET POSITION

At fiscal year ended December 31, 2016, the Port had no restricted component of net position to report.

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 may 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 periodically participates in several 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, 2016, the Port held $4,406 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2017.

NOTE 14 – 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 15 – CHANGE IN PRESENTATION

Starting in 2016, the Port began an accounting code system for expenses that allows a more precise tracking of all maintenance port-wide. This allows for a more accurate picture of maintenance costs of the Port. As such, when reviewing the Statement of Revenues, Expenses and Changes in Fund Net Position, there is a significant increase in the "Maintenance" costs from previous years and there is a reduction in "General Operations" costs.

PORT OF PORT TOWSEND
REQUIRED SUPPLEMENTARY INFORMATION
For the year ended December 31, 2017

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
As of June 30, 2017
Last 10 Fiscal Years[1]

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.014175%	0.014248%	0.014678%
Employer's proportionate share of the net pension liability	$ 741,484	$ 765,185	$ 696,483
TOTAL	$ 741,484	$ 765,185	$ 696,483
Employer's covered employee payroll	$ 1,627,316	$ 1,767,546	$ 1,887,596
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.56%	43.29%	36.90%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%

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 was the first year of implementation

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

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2 & 3
As of June 30, 2017
Last 10 Fiscal Years[1]

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.018309%	0.018326%	0.018880%
Employer's proportionate share of the net pension liability	$ 654,191	$ 918,168	$ 655,990
TOTAL	$ 654,191	$ 918,168	$ 655,990
Employer's covered employee payroll	$ 1,627,316	$ 1,767,546	$ 1,887,596
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.20%	51.95%	34.75%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%

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 was the first year of implementation

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

Port of Port Townsend
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016
Last 10 Fiscal Years[1]

	2015	2016
Employer's proportion of the net pension liability (asset)	0.014175%	0.014248%
Employer's proportionate share of the net pension liability	$ 741,484	$ 765,185
TOTAL	$ 741,484	$ 765,185
Employer's covered employee payroll	$ 1,627,316	$ 1,767,546
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

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 was the first year of implementation

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

Port of Port Townsend
Schedule of Proportionate Share of the Net Pension Liability
PERS 2 & 3
As of June 30, 2016
Last 10 Fiscal Years[1]

	2015	2016
Employer's proportion of the net pension liability (asset)	0.018309%	0.018236%
Employer's proportionate share of the net pension liability	$ 654,191	$ 918,168
TOTAL	$ 654,191	$ 918,168
Employer's covered employee payroll	$ 1,627,316	$ 1,767,546
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.20%	51.95%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

<u>Notes to Schedule:</u>

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

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 1
As of December 31, 2017
Last 10 Fiscal Years[1]

	2015	2016	2017
Statutorily or contractually required contributions	$ 73,176	$ 76,749	$ 98,088
Contributions in relation to the statutorily or contractually required contributions	$ (73,176)	$ (76,749)	$ (98,088)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employer payroll	$ 1,664,979	$ 1,609,001	$ 1,996,433
Contributions as a percentage of covered employee payroll	4.40%	4.77%	4.91%

Note to Schedule:

1. Until a full 10 year trend is compiled, the Port can only present annual information that is available. 2015 was the first year of implementation.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 2 & 3
As of December 31, 2017
Last 10 Fiscal Years[1]

	2015	2016	2017
Statutorily or contractually required contributions	$ 93,999	$ 107,964	$ 137,476
Contributions in relation to the statutorily or contractually required contributions	$ (93,999)	$ (107,964)	$ (137,476)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employer payroll	$ 1,664,979	$ 1,609,001	$ 1,996,433
Contributions as a percentage of covered employee payroll	5.65%	6.71%	6.89%

Note to Schedule:

1. Until a full 10 year trend is compiled, the Port can only present annual information that is available. 2015 was the first year of implementation.

Port of Port Townsend
Schedule of Employer Contributions
PERS 1
As of December 31, 2016
Last 10 Fiscal Years [1]

	2015	2016
Statutorily or contractually required contributions	$ 73,176	$ 76,749
Contributions in relation to the statutorily or contractually required contributions	$ (73,176)	$ (76,749)
Contribution deficiency (excess)	$ -	$ -
Covered employer payroll	$ 1,664,979	$ 1,609,001
Contributions as a percentage of covered employee payroll	na	na

Note to Schedule:

1. Until a full 10 year trend is complied, the Port can only present annual information that is available. 2015 was the first year of implementation.

Port of Port Townsend
Schedule of Employer Contributions
PERS 2 & 3
As of December 31, 2016
Last 10 Fiscal Years [1]

	2015	2016
Statutorily or contractually required contributions	$ 93,999	$ 107,964
Contributions in relation to the statutorily or contractually required contributions	$ {93,999)	$ (107,964)
Contribution deficiency (excess)	$ -	$ -
Covered employer payroll	$ 1,664,979	$ 1,609,001
Contributions as a percentage of covered employee payroll	5.65%	6.71%

Note to Schedule:

1. Until afu/110 year trend is complied, the Port can only present annual information that is available. 2015 was 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