



Annual Financial Report

For the Year Ended
December 31, 2015

Unaudited
As of May 29, 2016

BOARD OF PORT COMMISSIONERS

As of December 31, 2015

James Hallett, President

John M. Calhoun, Vice President

Colleen McAleer, Secretary

As of May 29, 2016

Colleen M. McAleer, President

Connie L. Beauvais, Vice President

Steven D. Burke, Secretary

**Port of Port Angeles
Management's Discussion and Analysis
For the Year Ended December 31, 2015**

INTRODUCTION

The Port is a special-purpose municipality providing marina, airport and marine terminal services, as well as industrial property leases, and fosters economic activity within the district. The Port of Port Angeles was approved by Clallam County voters in 1922 and established in 1923. The Port is independent from other local or state governments and operates within the Clallam County district boundaries. It is administered by a three-member Board of Commissioners. In 2014 the public voted to change the term of office for new elected Commissioners to a four-year term instead of a six-year term. The Commission delegates authority to an Executive Director to manage the operations of the Port. The Port is supported primarily through operating revenues (user charges, marine terminal tariffs, rental rates, and fees). Property tax revenue is used for funding debt service payments on capital projects and funding a community partner program in which the Port provides funding for small economic development projects within Clallam County. Any remaining property tax revenue is added to the capital improvement fund.

This section contains the Port of Port Angeles' Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar year ended December 31, 2015, and December 31, 2014. It provides an introduction to the Port's 2015 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements. Additionally, other factors not shown on the financial reports should be evaluated to assess the Port's true financial condition, such as changes in the Port's tax base and the condition of the Port's asset base.

Overview of the Financial Statements

The financial section of the annual report consists of three parts:

- Management's Discussion and Analysis (MD&A)
- Financial Statements, which includes:
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
- Notes to the Financial Statements

The financial statements in the annual report describe whether the Port is better or worse off as a result of the year's activities. Following is a brief discussion of the various statements.

- Statement of Net Position reflects the Port's financial position at year-end. It presents information on all of the Port's assets, deferred outflows, liabilities and deferred inflows, with the difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows reported as Net Position. The value of Net Position represents a specific point in time. Over time, increases or decreases in Net Position may serve as an indicator of whether the financial position of the Port is improving or deteriorating.
- Statement of Revenues, Expenses, and Changes in Net Position reflects changes in the Port's financial position (Net Position) during the current year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows. This statement presents changes in Net Position from income or loss from operations as well as non-operating revenues and expenses, capital contributions and extraordinary items.
- Statement of Cash Flows reflects the net increases or decreases in cash from the following activities: Operating Activities, which includes a reconciliation of cash flows from operating activities to net income (loss) from operations; Noncapital Financing Activities; Capital and Related Financing Activities; Investing Activities.

FINANCIAL HIGHLIGHTS**Year Ended December 31, 2015**

- **Change in Net Position:** The ending net position (assets that exceed liabilities) was \$60.79 million, which was an increase of \$0.74 million. This is the result of (\$1.14) million loss from operations, \$3.99 million addition from non-operations (taxes, operating grants and capital contributions), and a (\$2.11) decrease in net position related to the implementation of GASB 68 relating to pension liability. Operating revenues decreased overall by \$1.35 million or 14%, primarily due to a decrease in the export log market which provides revenues for Marine Terminals and Log Handling. Marina revenues have been experiencing a slow decline over the past several years but increased from \$2.40 to \$2.45 million or 2.3% in 2015. The \$1.5 million decrease in operating margin was offset by a \$0.95 million increase in net non-operating revenues and a \$1.29 million increase in grant funded capital contribution.
- **Assets:** Total assets of the Port were \$77.1 million, which was an increase of \$4.7 million. Net capital assets (land, buildings, improvements and equipment net of accumulated depreciation) comprised \$51 million or 66% of total assets. A significant portion of the Port's assets were substantially comprised of cash and investments, for a sum of \$17.4 million of which \$1.6 million was restricted (custodial account, debt service and customer deposits/prepays), while the rest was available to be used for any purpose. While cash and investments decreased by \$4.5 million or 20% in 2015, insurance and grants receivable increased by \$6.6 million.
- **Liabilities:** The Port's total liabilities increased 32% or \$3.9 million in 2015. The largest increase was \$2.1 million of pension liability relating to the Port's adoption of the GASB 68 standard. The Port provides retirement benefits through a state retirement program and this new standard requires the Port to recognize a portion of the state's unfunded pension liability on the Port's financial records. Other significant increases included a \$1.5 million increase in contracts payable relating to public works construction projects underway at year end and a \$1.0 million liability for a grant received in 2015 for a construction project scheduled to start in 2016.
- **Deferred Inflows and Outflows:** In 2015 the Port recognized \$266,839 of deferred outflows and \$314,891 of deferred inflows. These amounts are a result of the implementation of GASB 68 and the resulting timing differences in payments relating to the liability associated with the state pension program. GASB 68 is discussed further in Note 12 – Pension Plans.

Year Ended December 31, 2014

- **Change in Net Position:** The ending net position (assets that exceed liabilities) was \$60.05 million, which was an increase of \$2.1 million. This is the result of \$0.36 million from operations and \$1.75 million from non-operations (taxes, operating grants and capital contributions). Operating revenues increased overall by \$1.41 million or 16%, primarily due to a strong log export market which provides revenues for Marine Terminals and Log Handling. Marina revenues have been experiencing a slow decline in occupancy, which is reflective of both regional and national trends. In 2014 revenues and expenses for rental properties which were within the airport layout plan were moved to the Airport, which resulted in a shift of approximately \$1 million in revenues from Property Rentals to Airports. Operating expenses increased overall by \$1.44 million, slightly more than operating revenues, and included \$0.3 million expense for airport project planning. In non-operating revenues, there was \$0.9 million in grants for airport improvements from FAA (Federal Aviation Administration) and a \$0.4 million increase in the fair value of investments (primarily related to two investments that have maturities in December of 2025 and 2030; longer term investments are more sensitive to changes in interest rates). The Port's policy is to hold investments until maturity so it would be unlikely the unrealized gain would be realized.

- **Assets:** Total assets of the Port were \$72 million, which was an increase of \$2.1 million. Net capital assets (land, buildings, improvements and equipment net of accumulated depreciation) comprised \$48 million or 67% of total assets. A significant portion of the Port's assets were substantially comprised of cash and investments, for a sum of \$21.9 million of which \$0.3 million was restricted (custodial account, debt service and customer deposits/prepays), while the rest was available to be used for any purpose. Cash and investments increased by \$2.9 million or 15%.
- **Liabilities:** The Port's total liabilities did not significantly change. The activity was comprised of a decrease of \$0.7 million in outstanding debt on capital assets and an increase of \$0.9 million related to pollution remediation projects. (Per accounting rules, expenses for pollution remediation projects are required to be accrued when reasonably estimable; however, grant revenue related to one of the projects, cannot be recorded until the expense is incurred.) There was also a slight increase in other post-employment benefits and employee leave benefits.

Condensed Comparative Financial Data

The Statement of Net Position reflects the Port's financial position at year-end. It includes all Port assets and liabilities at a specific point in time. Changes in Net Position may serve as an indicator of whether the financial position of the Port is improving or deteriorating.

STATEMENT OF NET POSITION					
	2015	2014	2013	Increase (Decrease) 2015-2014	Increase (Decrease) 2014-2013
Current Assets	\$ 17,728,898	\$ 13,036,719	\$ 10,962,764	\$ 4,692,179	\$ 2,073,955
Noncurrent Assets	59,366,722	59,335,355	59,332,546	31,367	2,809
Total Assets	77,095,620	72,372,074	70,295,310	4,723,546	2,076,764
Deferred Outflows of Resources	266,839	0	0	266,839	0
Current Liabilities	5,359,198	2,555,857	2,207,421	2,803,341	348,436
Noncurrent Liabilities	10,895,102	9,758,513	10,139,348	1,136,589	(380,835)
Total Liabilities	16,254,300	12,314,370	12,346,769	3,939,930	(32,399)
Deferred Inflows of Resources	314,891	0	0	314,891	0
Net Investment in Capital Assets	43,456,987	39,872,679	38,746,799	3,584,308	1,125,880
Restricted for Environmental	66,172	13,767	158,378	52,405	(144,611)
Unrestricted Net Position	17,270,108	20,171,258	19,043,364	(2,901,150)	1,127,894
Total Net Position	\$ 60,793,267	\$ 60,057,704	\$ 57,948,541	\$ 735,563	\$ 2,109,163

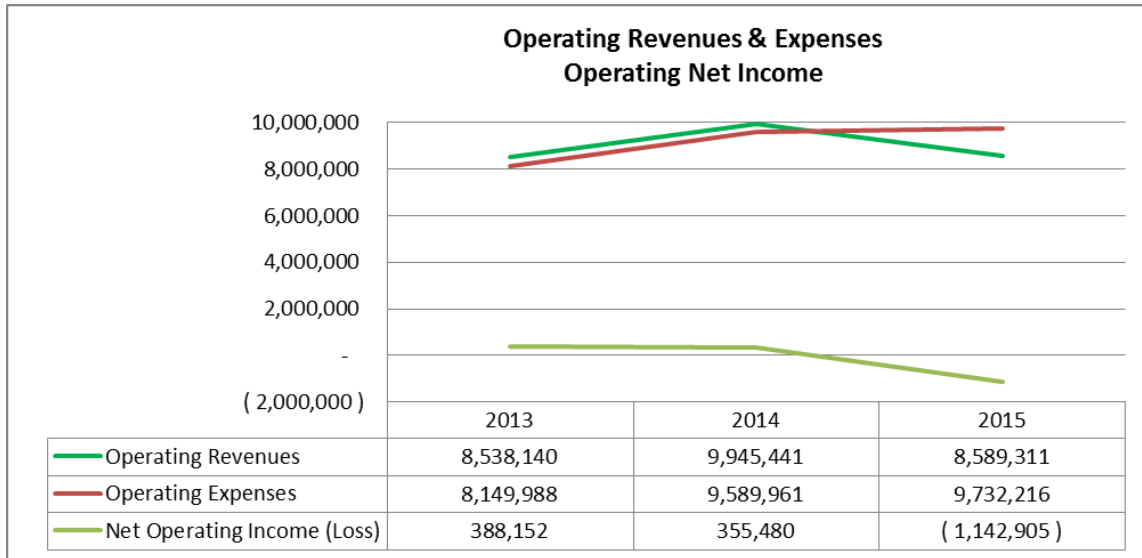
Continue on to next page for the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reflects changes in the Port's financial position during the year (in contrast to the Net Position statement which is a snapshot on December 31, 2015). This statement presents the inflows of revenues and outflows of expenses.

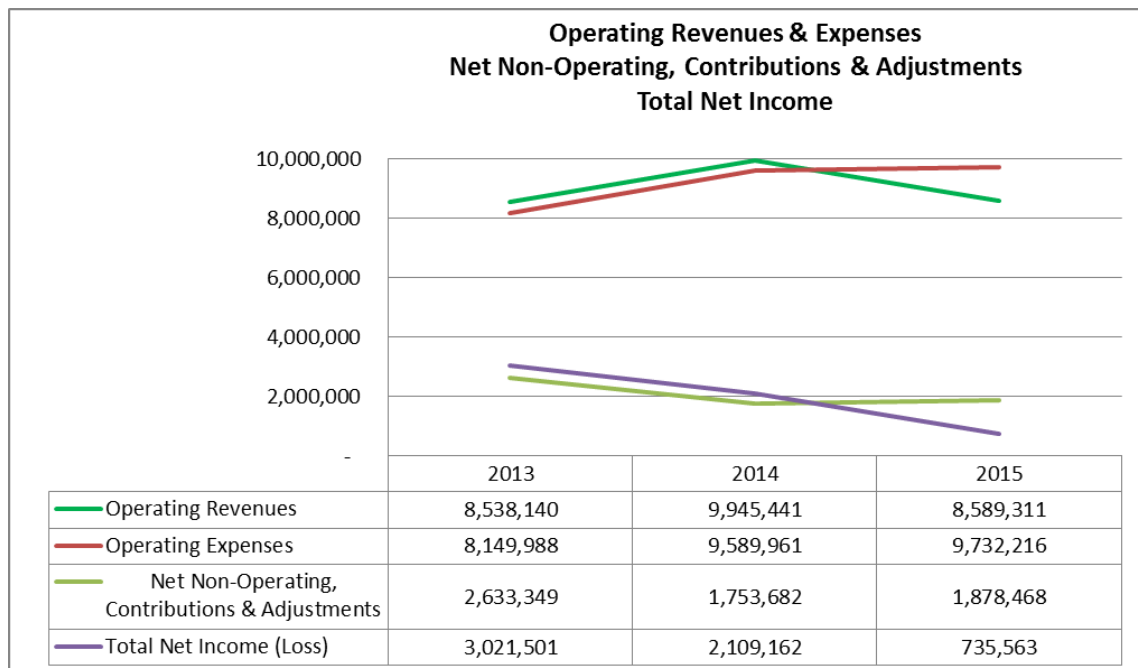
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				Increase	Increase
	2015	2014	2013	(Decrease) 2015-2014	(Decrease) 2014-2013
Operating Revenues					
Marine Terminals	\$ 2,964,843	\$ 3,689,283	\$ 2,847,089	\$ (724,440)	\$ 842,194
Marine Trades	420,290	320,193	-	100,097	320,193
Log Handling	1,226,950	1,824,233	1,155,730	(597,283)	668,503
Airports	1,271,817	1,313,511	351,532	(41,694)	961,979
Marinas & Launch Ramps	2,457,330	2,402,135	2,655,211	55,195	(253,076)
Property Rentals	248,081	396,086	1,528,578	(148,005)	(1,132,492)
Total Operating Revenues	8,589,311	9,945,441	8,538,140	(1,356,130)	1,407,301
	-	-	-	-	-
NonOperating Revenues	2,546,347	2,292,406	2,579,471	253,941	(287,065)
	-	-	-	-	-
Total Revenues	11,135,658	12,237,847	11,117,611	(1,102,189)	1,120,236
	-	-	-	-	-
Operating Expenses					
Marine Terminals	1,136,867	1,212,840	1,140,890	(75,973)	71,950
Marine Trades	459,091	368,016	-	91,075	368,016
Log Handling	1,815,944	2,040,794	1,290,030	(224,850)	750,764
Airports	1,869,426	1,627,146	801,099	242,280	826,047
Marinas & Launch Ramps	2,102,835	1,934,234	2,209,011	168,601	(274,777)
Property Rentals	270,485	391,105	752,665	(120,620)	(361,560)
Depreciation	2,077,568	2,015,826	1,956,293	61,742	59,533
Total Operating Expenses	9,732,216	9,589,961	8,149,988	142,255	1,439,973
	-	-	-	-	-
NonOperating Expense	792,174	1,483,419	923,190	(691,245)	560,229
	-	-	-	-	-
Total Expenses	10,524,390	11,073,380	9,073,178	(548,990)	2,000,202
	-	-	-	-	-
Income (Loss) before Capital Contributions and Special Items	611,268	1,164,467	2,044,433	(553,199)	(879,966)
	-	-	-	-	-
Capital Contributions	2,238,639	944,695	1,166,144	1,293,944	(221,449)
Special Items	-	-	-	-	-
	-	-	-	-	-
Increase in Net Position	2,849,907	2,109,162	3,210,577	740,745	(1,101,415)
	-	-	-	-	-
Net Position - January 1	60,057,704	57,948,541	54,927,040	2,109,163	3,021,501
Prior Period Adjustments (See Notes)	(2,114,344)	-	(189,076)	(2,114,344)	189,076
Net Position - Adjusted	57,943,360	57,948,541	54,737,964	(5,181)	3,210,577
	-	-	-	-	-
Net Position - December 31	60,793,267	60,057,703	57,948,541	735,564	2,109,162

Summary of Operating and Non-Operating Activity

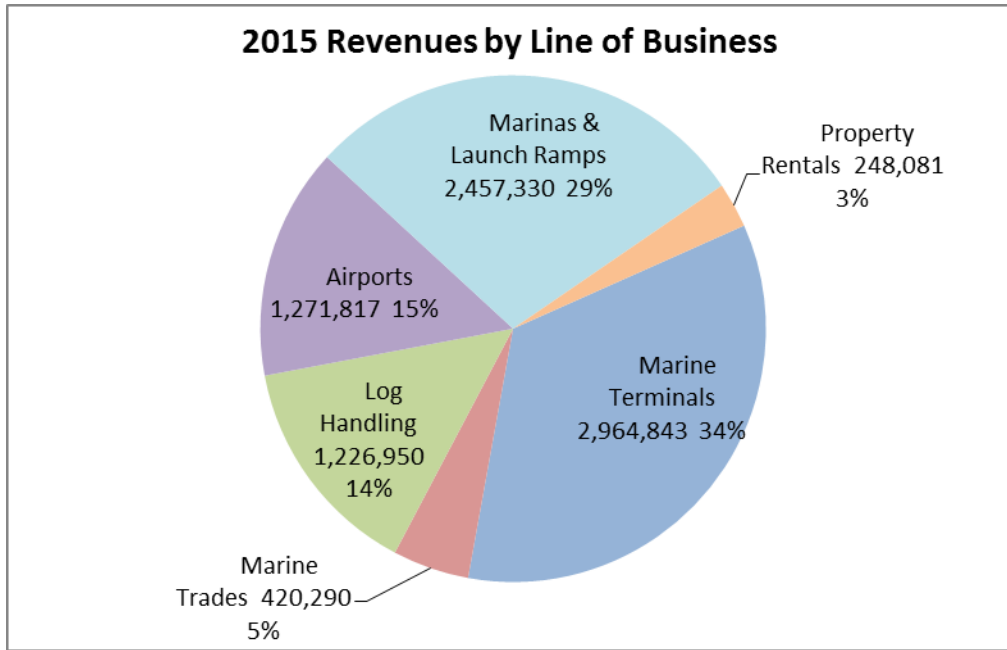
The operating functions of the Port include: Marine Terminals (dockage, wharfage, service and facilities, security fees); Marine Trades (boatyard fees, equipment rental, travel lift pier fees); Log Handling (fees for handling logs, such as sorting, bundling, stacking, staging, loading, rafting and equipment rental for movement by both land and water); Airport operations and industrial properties on airport land; Marinas and Boat Launch Ramps; and Property Rentals (land and structure rent that is not associated with another operating function). The operating functions of the Port are considered in the following graph.



The non-operating functions of the Port include: property, timber and other tax revenues; investment earnings; operating grants; legacy environmental expenses, grants and insurance recoveries; and bond issue costs and interest expense. There are also capital contributions from capital grants. Occasionally there are special and extraordinary items and prior period adjustments such as the \$2.1 million 2015 GASB 68 adjustment. The operating and non-operating functions of the Port are considered in the following graph.



In 2015, the primary sources of revenue were from Marine Terminals, Marinas, Log Handling and the Airport industrial properties. Marine Terminals and Log Handling accounted for nearly half of all Port revenue.

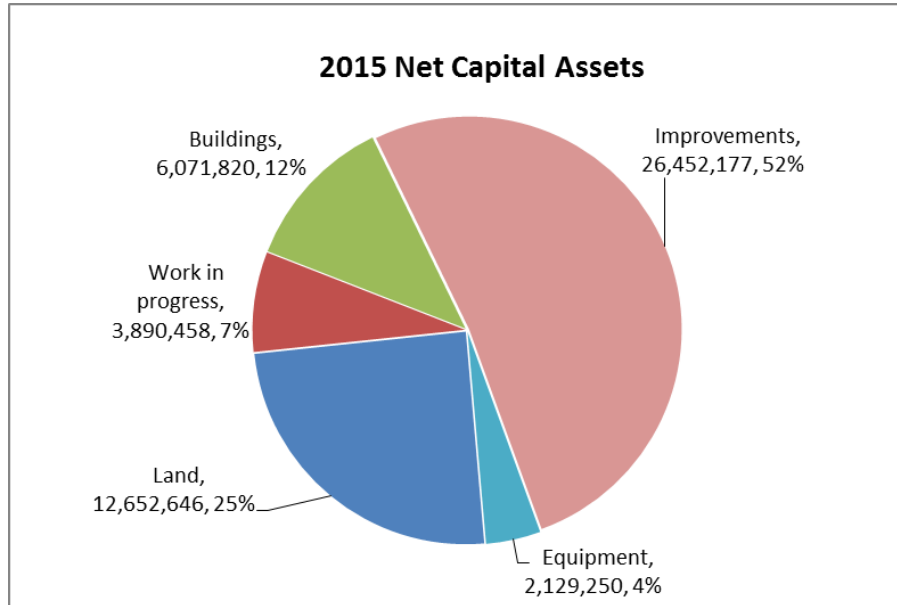


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CAPITAL ASSETS

Year Ended December 31, 2015

In 2015, the Port’s net capital assets increased by \$2.9 million or 6% over 2014. The increase included capitalizing \$2.9 million of work-in-process. New capital investments included completing a new access road, gates and approach instrumentation at the airport, renovation work on several facilities (HVAC replacement at Industrial park building, utility realign at boat haven, work float and gangway replacement) and other projects (new electric meters at John Wayne Marina, deck resurfacing). Also included is the purchase of a new log stacker, a mini excavator, and engine replacement in one of the boom boats at the log yard.



Year Ended December 31, 2014

In 2014, the Port’s net capital assets increased by \$0.4 million or 0.9% over 2013. The increase included capitalizing \$1.7 million of work-in-process and expensing \$0.5 million of work-in-process. New capital investments included completing the airport taxiway lighting and signage project, partial construction of the airport access road, boatyard rain garden, renovation work on several facilities (airport parking lot repair, airport building HVAC replacement, boatyard asphalt overlay, boat launch ramp float replacement) and other projects (new marina trash compactors and enclosures, and the purchase of computers, equipment and vehicles). The expensing of work-in-process included the log yard stormwater plan and part of the airport FBO relocation design work for projects that will not be completed in the near term.

Net Capital Assets and Change in Year-End Balances

	2015	2014	2013	Net Change 2015 - 2014	Net Change 2014 - 2013
Land	12,652,646	12,652,646	12,640,982	-	11,664
Work in progress	3,890,458	2,009,933	2,214,201	1,920,604	(204,268)
Buildings	6,071,820	6,422,238	6,874,292	(350,420)	(452,054)
Improvements	26,452,177	25,261,119	24,782,354	1,191,060	478,765
Equipment	2,129,250	1,972,961	1,389,389	156,287	583,572
	<u>51,196,351</u>	<u>48,318,897</u>	<u>47,901,218</u>	<u>2,917,531</u>	<u>417,680</u>

See Note 4 for increases and decreases in capital assets and depreciation.

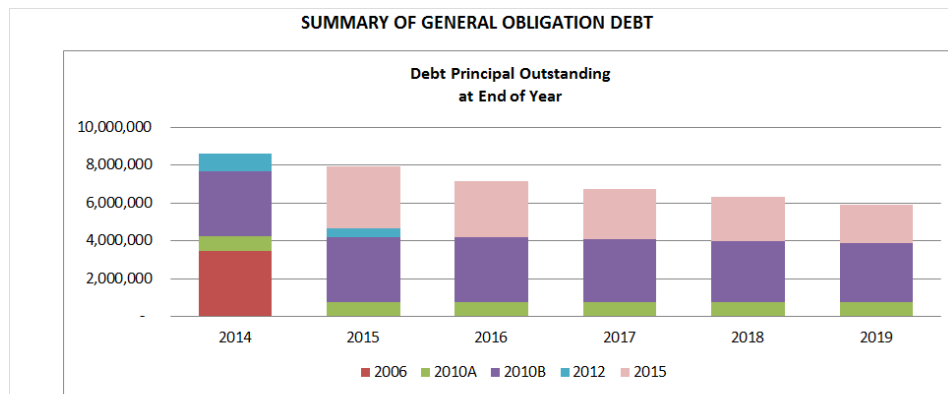
Debt Administration

Year Ended December 31, 2015

At December 31, 2015, the Port had general obligation bond debt outstanding (excluding premium/discount) of \$7.9 million, of which \$781,000 is due within one year. During 2015 the Port made debt principal payments of \$460,000. The terms of the debt varies by issue with interest rates ranging from 2.00% to 7.50%. The debt with the 7.50% interest rate is eligible for a rate subsidy, making the effective rate 3.375%. The general obligation bonds will be fully amortized at the end of 2030. The Port uses property taxes for debt service payments. Based on property taxes exceeding current debt payments the Port estimates the excess property taxes would cover an additional \$4.5 million of non-voted general obligation debt. The non-voted debt capacity of the Port was \$9.7 million at December 31, 2015. On October 26, 2015 the Port issued \$3,251,350 of Limited Tax General Obligation bonds with a coupon rate of 2.29%. Proceeds were used to refund (refinance) 2006 LTGO bonds. The 2015 refunding resulted in present value savings of approximately \$300,000.

Year Ended December 31, 2014

At December 31, 2014, the Port had general obligation bond debt outstanding (excluding premium/discount) of \$8.6 million, of which \$715,000 is due within one year. During 2014 the Port made debt principal payments of \$695,000. The terms of the debt varies by issue with interest rates ranging from 2.00% to 7.50%. The debt with the 7.50% interest rate is eligible for a rate subsidy, making the effective rate 3.375%. The general obligation bonds will be fully amortized at the end of 2029. The Port uses property taxes for debt service payments. Based on property taxes exceeding current debt payments the Port estimates the excess property taxes would cover an additional \$4 million of non-voted general obligation debt. The non-voted debt capacity of the Port was \$8.9 million at December 31, 2014. No new bond debt was issued in 2014.



Debt Outstanding (at end of year)	2014	2015	2016	2017	2018	2019
2006 PABH	3,485,000	----- see 2015 Refunding -----				
2010A Composite Mfg-Site	760,000	760,000	760,000	760,000	760,000	760,000
2010B Composite Mfg-Bldg	3,435,000	3,435,000	3,435,000	3,330,000	3,220,000	3,110,000
2012 25 Projects 1993-98	935,000	475,000	-	-	-	-
2015 Refunded 2006 PABH		3,251,350	2,957,647	2,659,806	2,352,706	2,035,899
Total Principal Outstanding	8,615,000	7,921,350	7,152,647	6,749,806	6,332,706	5,905,899
Decrease in Principal	695,000	693,650	768,703	402,841	417,099	426,807

	2016 thru 2030		
	Original Principal	Remaining Principal Pymts	Maturity
2006 PABH	4,995,000	0	
2010A Composite Mfg-Site	760,000	760,000	Dec 1, 2030
2010B Composite Mfg-Bldg	3,435,000	3,435,000	Dec 1, 2029
2012 25 Projects 1993-98	1,830,000	475,000	Dec 1, 2016
2015 Refunded 2006 PABH	3,251,350	3,251,350	Dec 1, 2025
	14,271,350	4,670,000	

See Note 10 for additions and reductions in long-term liabilities.

**PORT OF PORT ANGELES
STATEMENT OF NET POSITION**

As of December 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 5,994,120	\$ 8,799,746
Restricted Cash & Cash Equivalents	1,644,170	349,267
Investments	1,570,000	1,790,000
Accounts Receivable, net of allowance	600,330	681,549
Contracts, Notes & Insurance Receivable, current	5,269,340	661,183
Prepayments and Other Current Assets	302,167	378,310
Grants receivable	2,276,066	281,347
Taxes Receivable	72,704	95,317
Total Current Assets	17,728,897	13,036,719
NONCURRENT ASSETS		
Investments, net of current portion	8,168,534	10,987,824
Capital Assets, Net of Accumulated Depreciation	51,196,350	48,318,897
Other Noncurrent Assets:		
Contracts & Note Receivable, net of current portion	1,838	28,634
Total Noncurrent Assets	59,366,722	59,335,355
TOTAL ASSETS	77,095,619	72,372,074
DEFERRED OUTFLOWS OF RESOURCES	266,839	0
CURRENT LIABILITIES		
Accounts Payable	425,561	373,724
Accrued Expenses	524,656	244,464
Customer Deposits & Prepaid Revenues	89,009	89,824
Contracts Payable	2,682,429	88,341
Custodial Account	198,517	41,302
Long-Term Debt, current portion	781,026	728,202
Environmental Remediation, current portion	658,000	990,000
Total Current Liabilities	5,359,198	2,555,857
NONCURRENT LIABILITIES		
Long-Term Debt, net of current portion	7,158,337	7,918,016
Environmental Remediation, net of current portion	705,618	1,030,000
Employee Leave Benefits	421,466	420,055
Other Post Employment Benefits	2,609,681	390,442
Total NonCurrent Liabilities	10,895,102	9,758,513
TOTAL LIABILITIES	16,254,300	12,314,370
DEFERRED INFLOWS OF RESOURCES	314,891	0
NET POSITION		
Net Investment in Capital Assets	43,456,987	39,872,679
Restricted for Environmental	66,172	13,767
Unrestricted Net Position	17,270,108	20,171,258
TOTAL NET POSITION	\$ 60,793,267	\$ 60,057,704

The Accompanying Notes Are An Integral Part Of This Statement

PORT OF PORT ANGELES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Fiscal Year Ended December 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Marine Terminals	\$ 2,964,843	\$ 3,689,283
Marine Trades	420,290	320,193
Log Handling	1,226,950	1,824,233
Airports	1,271,817	1,313,511
Marinas & Launch Ramps	2,457,330	2,402,135
Property Rentals	248,081	396,086
Total Operating Revenues	8,589,311	9,945,441
OPERATING EXPENSES		
General Operations	3,704,439	4,199,275
Maintenance	1,458,249	1,230,804
General and Administrative	2,491,961	2,144,055
Depreciation	2,077,568	2,015,826
Total Operating Expenses	9,732,217	9,589,960
OPERATING INCOME (LOSS)	(1,142,906)	355,481
NONOPERATING REVENUES (EXPENSES)		
Ad Valorem Taxes (general tax levy)	1,425,267	1,401,357
Taxes from Timber & Leasehold Interest	144,015	231,546
Passenger Facility Charges	1,737	14,425
Investment Income	316,870	322,657
Interest Expense	(380,510)	(373,362)
Election Expense	(25,498)	-
Increase (Decrease) in Fair Value of Investments	(25,355)	382,843
Non-Capital Grants	641,744	12,174
Environmental Remediation Expense	(300,745)	(1,085,936)
Gain (loss) on retirement of Capital Assets	(13,739)	(65,563)
Miscellaneous Revenue (Expense)	(29,613)	(31,154)
Net NonOperating Revenues (Expenses)	1,754,173	808,987
INCOME (LOSS)		
Before Capital Contributions	611,267	1,164,468
Capital Contributions	2,238,639	944,695
INCREASE IN NET POSITION	2,849,906	2,109,163
Net Position - January 1	60,057,704	57,948,541
Prior Period Adjustment (see notes)	(2,114,344)	-
Net Position Adjusted	57,943,360	57,948,541
NET POSITION - December 31	\$ 60,793,266	\$ 60,057,704

The Accompanying Notes Are An Integral Part Of This Statement

**PORT OF PORT ANGELES
STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended December 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$8,685,230	\$9,914,255
Less: Cash paid to suppliers and employees	<u>(7,086,180)</u>	<u>(7,501,366)</u>
Net Cash Provided (Used) by Operating Activities	1,599,050	2,412,889
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	1,447,880	1,395,540
Timber and leasehold taxes received	144,015	231,546
Cash received from operating grants	18,652	921,434
Cash paid for environmental remediation expenses	(5,412,685)	(458,282)
Other NonOperating revenues (expenses)	<u>(55,111)</u>	<u>(31,154)</u>
Net Cash Provided by (Used in) Noncapital Financing	(3,857,249)	2,059,084
CASH FLOWS FROM CAPITAL & RELATED FINANCING		
Cash received from Passenger Facility Fees	1,737	14,425
Capital contributions from grants	867,012	1,077,372
Proceeds from bond issue	0	0
Acquisition and construction of capital assets	(2,374,672)	(2,493,084)
Principal paid on capital debt	(706,855)	(708,202)
Interest paid on capital debt	<u>(394,160)</u>	<u>(375,116)</u>
Net Cash Provided by (Used in) Capital & Financing Activities	(2,606,938)	(2,484,605)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	7,290,000	930,000
Purchase of investments	(4,275,000)	(2,080,000)
Interest received on investments & unrealized gain/loss	322,701	284,186
Other: Payment received on contract property sales	<u>16,713</u>	<u>200,553</u>
Net Cash Provided (Used) by Investing Activities	3,354,414	(665,261)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(1,510,723)	1,322,107
Cash and cash equivalents at beginning of year	<u>9,149,013</u>	<u>7,826,906</u>
CASH & CASH EQUIVALENTS END OF YEAR	<u>7,638,290</u>	<u>9,149,013</u>
RECONCILIATION OF (A) OPERATING INCOME TO (B) NET CASH PROVIDED BY OPERATING ACTIVITIES		
(a) Operating Income	(1,142,906)	355,481
(b) Net Cash Provided by Operating Activities		
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,077,568	2,015,826
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	95,919	(31,186)
(Increase) Decrease in Inventories & Prepayments	69,258	(38,048)
Increase (Decrease) in Accounts & Other Payables	51,837	(12,840)
Increase (Decrease) in Other Accrued Expenses	269,708	(23,019)
Increase (Decrease) in Other Liabilities	<u>177,666</u>	<u>146,675</u>
NET CASH OPERATING ACTIVITIES	<u>1,599,050</u>	<u>2,412,889</u>
NON-CASH INVESTING & FINANCING ACTIVITIES		
Increase (Decrease) in Fair Value of Investments	(25,355)	382,843

The Accompanying Notes Are An Integral Part Of This Statement

**Port of Port Angeles
Notes to Financial Statements
For the Year Ended December 31, 2015**

1. Summary of significant accounting policies

The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments (US-GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In June 2012, the Governmental Accounting Standards Board issued GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. The Port implemented GASB 68 for the year ended December 31, 2015. See note on Other Disclosures Prior Period Adjustment for the net result of recording previous Net Pension Liability.

The significant policies are described below.

Reporting Entity

The Port is a municipal corporation of the State of Washington created in 1923 under provisions of the Revised Code of Washington (RCW) 53.04.010 et seq. The Port has geographic boundaries coextensive with Clallam County, Washington and its home office is situated on the Port Angeles harbor.

The Port is independent from Clallam County government and is administered by a three-member Board of Commissioners elected by Clallam County voters. The Commission delegates administrative authority to an Executive Director to manage operations of the Port. Clallam County does levy and collects taxes on behalf of the Port. Clallam County provides no funding to the Port. Additionally, Clallam County does not hold title to any of the Port's assets, nor does it have any right to the Port's surpluses.

The Port provides docks and wharves for waterborne commerce as well as marina and airport facilities. The Port also owns and manages significant industrial properties.

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

The IDC is governed by the Port's three member Port Commission. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 338 West First Street in Port Angeles, WA. In 2015 the IDC changed its fiscal year end from December 1st to the calendar year end resulting in 13 months being reported in the 2015 report.

Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of RCW 43.09. 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 (or balance sheets). Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net

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

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

Operating and Non-Operating Revenues and Expenses

The Port classifies as Operating those revenues and expenses that result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. Revenues from Marine Terminals, Marine Trades (haul-out pier and boatyard), Log Handling services, Airports, Marinas, and Property Rentals are charges for use of the Port's facilities or services and are reported as operating revenues. Expenses associated with these same divisions, such as cost of services, business and economic development, administrative expenses, and depreciation on capital assets, are reported as operating expenses.

Other revenues and expenditures not meeting the definition of operating revenues and expenses described above, including ad valorem tax levy revenues, timber tax revenues, investment earnings, grants and all other revenues and expenses generated from non-operating sources are classified as non-operating. Environmental compliance or remediation expenses that are not part of current ongoing business operations or cannot be capitalized are treated as non-operating expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

Significant Risks and Uncertainties

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law. The Port also faces a concentration of credit risk wherein a significant portion of the Port's business is transacted with entities in the forest products industry.

Grants-in-Aid Assets

The Port periodically receives federal and state grants-in-aid funds for construction of certain facilities. Grants are recognized as capital contributions in the accounting period when they become measurable and available. Depreciation on all assets, including grant funded assets, is shown in the Statement of Revenues, Expenses and Net Position.

Ad Valorem Taxes (Property Taxes)

Ad valorem taxes received by the Port are recognized as revenue based upon the annual amount levied by the Port Commissioners and recorded by Clallam County Assessor. These taxes may be used for the acquisition or construction of facilities, for the retirement of general obligation bonds which were issued for the acquisition or construction of facilities, or for general Port operations. The Commissioners have directed that property taxes are used only for non-operating expenses.

Capital Assets and Depreciation

The Port's policy is to capitalize all asset additions with a value of \$5,000 or more and with an estimated useful life of at least five years. Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Major repairs include expenditures with a value in excess of \$10,000 and increase the useful life of the repaired asset by at least five years. Maintenance, repairs, and minor renewals which maintain assets in their current operating condition are recorded as an operating expense.

Prior to 2013 the Port's policy was to capitalize all asset additions greater than \$1,000 and with an estimated useful life of more than five years. Existing assets at the time of the policy change will continue under the prior policy.

All capital assets (land, the cost of infrastructure, facilities and equipment) are valued at historical cost, or estimated historical cost where historical cost is not known. Donated capital assets from developers and customers are recorded at the estimated fair market value at the date of donation.

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 accounts.

When an asset is sold, retired or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, are removed from the Port's capital asset accounts, the accumulated depreciation related to the property sold is removed from the accumulated depreciation account, and the net gain or loss on disposition is credited or charged to income.

Depreciation

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight line method with useful lives of 5 to 50 years. The following useful lives are used in computing depreciation:

Capital Asset Class	Useful Life
Buildings	5 years to 33 years
Improvements	5 years to 50 years
Machinery and Equipment	5 years to 20 years

Allocation of Expenses

For the purposes of financial reporting, the Port allocates the costs of general and administrative departments to the lines of business they support. The cost associated with Administration, Business and Economic Development, and Maintenance is assigned to Marine Terminals, Marinas, Marine Trades, Log Handling, Airports, and Property Rentals.

In 2014 the Port adopted the Modified Total Direct Cost (MTDC) method of allocations. In late 2013, the US Federal Government issued regulations specifying the overhead allocation methodology to be used in Federal grant awards and audits. The methodology selected was Modified Total Direct Cost (MTDC) and it is required for all federal grant reporting starting January 1st, 2015. The Port reviewed MTDC and determined it to be a better overhead cost allocation model and adopted it starting in fiscal year 2014. MTDC allocates overhead based on the proportional amount of direct expense from each line of business less any expenses that need to be excluded in order to "avoid a serious inequity in the distribution of indirect costs." The MDTC methodology is now required for financial reporting of FAA grants received by Port, and the Port has chosen to implement that methodology across all lines of business.

Prior to 2014, the Port used an allocation method that allocated general and administrative costs based on the proportional amounts of revenues and expenses within the lines of business. Expenses were allocated to specific operations using 50% of the ratio of operations revenues to total operating revenues plus 50% of the ratio of operations expenses to total operating expenses.

Cash Equivalents

General operating cash equivalent includes all unrestricted amounts. It is the Port's policy to invest all temporary cash surpluses. For financial statement purposes, the Port considers all short-term investments, which primarily consist of financial institution deposits and investments in government pools to be cash equivalents on the Statement of Net Position.

Cash Equivalents	Dec 31, 2015	Dec 31, 2014
General Operating	\$ 5,994,120	\$ 8,799,746
Other Restricted Assets	<u>1,644,170</u>	<u>349,267</u>
Total	\$ 7,638,290	\$ 9,149,013

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.

Investments

The Port used quoted market prices to estimate the fair value of all investments. All unrealized gains and losses on investments were included as a change in the fair value of investments reported in the prior and current years.

See Note 2 for a schedule of Deposits and Investments.

Restricted Cash & Investments

In accordance with bond resolutions and certain related agreements, separate restricted accounts are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special restricted requirements. Restricted Assets contain resources used for payments on debt service. The current portions of related liabilities are shown as the Current Portion of Long Term Debt. The Restricted Assets are composed of the following:

Restricted Assets	Dec 31, 2014	Dec 31, 2014
Cash & Investments (Harbor Group Account)	264,689	55,069
Cash & Investments (Debt Service Fund)	200,000	200,000
Cash & Investments (Bond Proceeds Fund)	-	-
Opportunity Fund for CRTC Bldg	1,000,000	-
Customer Deposits & Prepaids	89,009	89,825
Contractor's Retainage	90,471	4,373
Total	\$ 1,644,170	\$ 349,267

See Note 2 for a schedule of Deposits and Investments at Fair Value.

Accounts Receivable, Net of Allowance

Customer accounts receivable consist of amounts owed for moorage, rental agreements, marine terminal services, log yard services and other goods and services from private individuals or organizations including amounts owed for which billings have not been prepared. Receivables have been recorded at net of estimated uncollectible accounts. Management determines the allowance for uncollectible accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. An accounts receivable is written off when deemed uncollectible. Recoveries of an accounts receivable previously written off are recorded against the reserve account when received.

Allowance for Uncollectible Accounts	Dec 31, 2015	Dec 31, 2014
Based on delinquent accounts and historical experience	\$ 56,043	\$ 44,427

Contracts, Notes and Insurance Receivables

Other receivables include contracts for the sale of real estate, notes for tenant improvements, long-term agreements for the repayment of rent and insurance receivables primarily related to environmental investigations and remediation (Kply site total \$5.13 million).

	Dec 31, 2015	Dec 31, 2014
Real Estate Contracts, current	\$ -	\$ 4,617
Rent Repayment Agreement, current	14,700	14,700
Insurance Receivables	5,254,640	641,866
Total Contracts, Notes and Insurance Receivables, Current	\$ 5,269,340	\$ 661,183

Taxes Receivable

Taxes receivable consists of property taxes and related interest and penalties. Because property taxes and special assessments are considered liens on property, no estimates for uncollectable amounts are established. Taxes receivable also include the Port's share of Timber Tax and Leasehold Excise tax distributions.

See Note 3 for more information on Property Taxes.

Grants Receivables, Amounts Due To and From Other Governments

These accounts include amounts due to or from other governments for grants, entitlements, and loans from other governmental entities. A Schedule of Financial Assistance, which provides a listing of all federal and state assistance programs in which the Port participates and summarizes the Port's grant transactions, is available upon request.

Prepayments and Other Current Assets

Prepayments include insurance policies premiums. Other current assets consist of accrued interest on investments and inventories. Inventories are valued at cost, which approximates net realizable value, using the first-in first-out method (FIFO).

Employee Leave Benefits

The Port accrues unpaid vacation and sick leave benefits as earned. Benefits are payable upon termination, resignation, or retirement. Vacation leave, which may be accumulated up to two times the annual vacation amount (annual vacation accrual is 10 to 30 days depending on years of service), is paid at the rate of 100%. Annual sick leave accrual is 96 hours (12 days). Sick leave may be accumulated based on employee status. The annual cash out to VEBA (Voluntary Employees Beneficiary Association - is a tax-free post-retirement medical expense account) helps to limit the amount of liability for employee leave benefits. (Represented by ILWU: 400 hours with up to 50 hours annual cash out to VEBA at 75%; Represented by Teamsters: 400 hours with up to 100 hours annual cash out to VEBA at 75%; Non-represented: 300 hours with up to 100 hours annual cash out to VEBA at 75%.) There is no limit on sick leave accrual. Sick leave is paid out at the rate of 75% upon termination.

Employee Leave Benefit Liabilities	Dec 31, 2015	Dec 31, 2014
Unpaid vacation and sick leave	\$ 481,366	\$ 467,955

Pensions

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

2. Deposits and Investments

Deposits

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC agent in the name of the collateral pool. In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance.

The Washington State Local Government Investment Pool (LGIP) is operated by the Washington State Treasurer which operates it in a 2a-7-like manner even though it is not subject to SEC regulation. The LGIP is not rated and is subject to annual audits by the Washington State Auditor's Office.

Investments

The Port Commission has authorized the Port Treasurer to invest in savings or time deposits in designated public depositories, obligations of the United States or its agencies, obligations of Local and State governments that are rated "A" or higher, and other limited investments. With the exceptions of certain reserve fund investments, the investment policy generally limits the maximum maturity of any security purchased to five years. Investments are purchased through broker relationships with all securities purchased held in the Port's name at a third party custodian.

Deposits & Investments at Fair Value	Dec 31, 2015	Dec 31, 2014
Unrestricted: Cash & Cash Equivalent		
Cash Operations: Financial Institution Deposits	\$ 687,050	\$ 1,787,107
Investments:		
Financial Institution Deposits & Money Market	565,254	4,276,379
WA State Local Gvnt Invmt Pool (LGIP)	4,741,781	2,736,260
Unrestricted Cash & Cash Equivalents	\$ 5,994,085	\$ 8,799,746
Restricted: Cash & Cash Equivalent		
Custodial Account - Harbor Group	264,689	55,069
Debt Service Fund & Bond Proceeds	200,000	200,000
Opportunity Fund CRT	1,000,000	-
Customer Deposits & Prepaids, Contractor Retainage	\$ 179,481	\$ 94,198
Restricted Cash & Cash Equivalents	\$ 1,644,170	\$ 349,267
Total Cash & Cash Equivalents	\$ 7,638,255	\$ 9,149,013
Unrestricted Investments		
U.S. Agency Securities	2,995,660	6,488,126
Municipal Bond Investments located in WA State	\$ 6,742,874	\$ 6,289,698
Investments	\$ 9,738,534	\$ 12,777,824
Total Cash, Cash Equivalents & Investments	\$ 17,376,789	\$ 21,926,837

Of the above investments, cash and cash equivalents are protected by the Federal Deposit Insurance Corporation (FDIC) or the Public Deposit Protection Commission (PDPC). The US Agencies are guaranteed by the US government. The municipal bond investments (Ports, Utility Districts, School Districts) are rated "A" and "AA" by Moody's.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. To minimize this risk, the Port's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping custodian. Of the Port's total investment position in 2015 and 2014, \$ 0 is exposed to custodial collateral risk because the investments are held by the Port's brokerage firm, which is also the counterparty in those particular securities.

3. Property Taxes

The Clallam County Treasurer acts as an agent to collect property taxes levied for all taxing authorities within the county. The Port District has the same boundaries as Clallam County.

Property Tax Calendar	
January 1	Taxes levied and become enforceable lien against properties
February 14	Tax bills mailed
April 30	First of two equal installment payments is due
May 31	Assessed property value established for next year's levy at 100 % of market value
October 31	Second installment due

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

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general governmental services. Washington State Constitution and RCW 84.55.010 limits the growth of regular property taxes to one percent per year, before adjustments for new construction. If the assessed valuation changes the levy rate will change to maintain the regular levy, for example, if the valuation decreases the levy rate increases and vice versa. The levy rate is applied to the prior year assessed valuation (AV).

Property Taxes	2015	2014
Regular Levy rate per \$1,000 of AV	\$0.202284	\$0.200024
Assessed Valuation (AV) for prior year	\$7,054,903,078	\$7,002,941,388
Total Regular Levy	\$1,427,094	\$1,400,756

The Port may also levy taxes at less than a one percent per year increase. The difference of what could have been levied with a one percent increase (the highest lawful levy) and the lower amount that the Port levies is considered "banked". The Port has banked capacity because it did not levy the one percent increase in prior years and it has not requested to increase its levy by more than one percent to use its banked capacity.

Banked Capacity	Dec 31, 2015	Dec 31, 2014
Did not levy 1%: 2009, 2010, 2012, 2014	\$38,765	\$26,338

The amount of banked capacity usually changes each year because the highest lawful levy and the actual levy are recalculated.

Per the Port's bond covenants, the Port agreed to provide information on property tax collections. The entire tax or first half must be made on or before April 30, or else the total amount becomes delinquent on May 1. The second half is payable on or before October 31, becoming delinquent on November 1. The following table shows the tax collection record of the Port.

Year	Taxable Assessed			Amount Collected			
				Dollars		Percent	
	Value (AV) Prior Year	Levy Rate per \$1,000 AV	Tax Levy (including adjustments)	Year of Levy	As of 12/31/2015	Year of Levy	As of 12/31/2015
2015	7,054,903,078	0.202284	1,426,800	1,403,070	1,403,070	98.3%	98.3%
2014	7,002,941,388	0.200024	1,400,590	1,375,651	1,389,503	98.2%	99.2%

4. Capital Assets and Depreciation

See Note 1 for accounting policies on Capital Assets and Depreciation.

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

	Dec. 31, 2014	Increases	Decreases	Dec. 31, 2015
Capital Assets not being depreciated:				
Land	12,652,646	-	-	12,652,646
Work in Progress	2,009,933	4,881,123	3,000,598	3,890,458
Total Capital Assets Not being Depreciated	14,662,579	4,881,123	3,000,598	16,543,104
Capital Assets being depreciated:				
Buildings	14,702,533	-	-	14,702,533
Improvements	55,496,365	2,788,376	33,306	58,251,435
Machinery/Equip	5,873,267	299,861	-	6,173,128
Total Capital Assets being Depreciated	76,072,165	3,088,237	33,306	79,127,096
Less: Accumulated Depreciation				
Buildings	8,280,296	350,419	-	8,630,715
Improvements	30,342,646	1,476,176	19,567	31,799,256
Machinery/Equip	3,792,906	250,973	-	4,043,879
		-		
Total Accumulated Depreciation	42,415,848	2,077,568	19,567	44,473,850
Total Capital Assets being Depreciated less Accum Depr	33,656,317	-	-	34,653,246
Total Net Capital Assets	48,318,895	5,891,792	3,014,337	51,196,350

In 2015 the Port reclassified autoclave assets from Improvements to Equipment. This resulted in an adjusted beginning balance in both Improvements and Machinery/Equipment as well as associated accumulated depreciation. The adjustment of assets was \$207,698.33 and associated depreciation was \$100,296.32.

Capital assets activity for the year ended December 31, 2014 was as follows:

	Dec. 31, 2013	Increases	Decreases	Dec. 31, 2014
Capital Assets not being depreciated:				
Land	12,640,982	11664	0	12,652,646
Work in Progress	2,214,202	2,321,417	2,525,685	2,009,934
Total Capital Assets Not being Depreciated	14,855,184	2,333,081	2,525,685	14,662,580
Capital Assets being depreciated:				
Buildings	14,887,764	0	185,231	14,702,533
Improvements	53,892,098	1,895,439	83,474	55,704,063
Machinery/Equip	4,872,003	798,607	5,040	5,665,570
Total Capital Assets being Depreciated	73,651,865	2,694,046	273,745	76,072,166
Less: Accumulated Depreciation				
Buildings	8,013,473	394,130	127,307	8,280,296
Improvements	29,109,742	1,406,765	73,564	30,442,943
Machinery/Equip	3,482,615	215,035	5,040	3,692,610
Total Accumulated Depreciation	40,605,830	2,015,929	205,911	42,415,848
Total Capital Assets being Depreciated less Accum Depr	33,046,035	-	-	33,656,317
Total Net Capital Assets	<u>47,901,219</u>	<u>3,011,197</u>	<u>2,593,519</u>	<u>48,318,897</u>

Continue on to next page for Construction Commitments

Construction Commitments

The Port has several active construction projects. At year-end the Port's commitments with contractors was as follows:

Construction Commitments as of December 31, 2015:

	Project	Spent thru Dec 31, 2015	Remaining Commitment
1	MT T1 Redevelopment	2,230,926	3,045,482
2	MT Security Upgrades	128,201	6,799
3	MT Stormwater Treatment Phase II	114,877	54,883
4	MT T3 Head-tie Dolphin	18,007	106,573
5	MT T1 Sprinkler Repairs	11,562	2,256
6	MT T1 Electrical Grounding	6,882	18,118
7	MT Gangway Platform Fabrication	31,891	0
8	MTA Kply cleanup	7,085,025	246,223
9	LY Stormwater Improvements Phase II	83,465	54,883
10	FIA Entrance Sign Replacement	25,963	0
11	FIA AIP #32 GA Access Road	1,198,549	118,057
12	FIA AIP #33 Gate & NAVAID Improvements	953,425	21,259
13	FIA AIP #34 Master Plan Update	254,022	413,058
14	FIA AIP #35 Apron	89,340	45,768
15	ARP Bldg 1010 HVAC Renovation	337,708	14,214
16	CMC Fire Supression	11,637	1,845
17	Bldg 2220 Completion	238,068	4,055,099
18	PABH Utility Repalce/Realign	100,289	0
19	PABH Boat Launch Improvement	79,010	549,625
20	PABH Replace Work Float	40,859	0
21	PABH Work Float Gangway	22,424	0
22	JWM Install Electrical Meters	43,426	0
23	Admin Cyber Security Upgrade	39,314	18,487
	Total	\$ 13,144,870	\$ 8,772,629

Continue on to next page for Construction Commitments as of December 31, 2014

Construction Commitments as of December 31, 2014 were as follows:

	Project	Spent thru Dec 31, 2014	Remaining Commitment
1	MT T1 Redevelopment	514,086	10,293
2	MTA Asphalt Overlay	30,014	0
3	LY Boat #6 Engine Replacement	46,321	0
4	LY Stacker #5 Engine Replacement	28,858	0
5	FIA Asphalt Resurfacing	72,818	2,419
6	FIA Parking - Lighting Improvements	5,249	0
7	FIA Entrance Sign Replacement	23,371	0
8	FIA HVAC Upgrade	31,686	0
9	FIA AIP #30 Taxi Light Improvements	434,698	0
10	FIA AIP #31 Taxiway Lighting & Signage	827,140	0
11	FIA AIP #32 GA Access Road	1,011,526	206,033
12	FIA AIP #33 Gate & NAVAID Improvements	77,851	24,639
13	ARP Bldg 1010 HVAC Renovation	24,997	15,510
14	PABH Utility Repalce/Realign	95,559	0
15	PABH Replace Work Float	34,739	0
16	PABH Trash Compactor	28,167	0
17	PABH Trash Compactor Enclosure	34,518	0
18	JWM Deck Resurfacing	60,196	1,954
19	JWM Dumpster Enclosure	20,291	0
20	BY Utility Pole Replacement	9,129	0
21	West Boat Launch Float Replacement	96,996	0
22	Admin Computer Upgrade	36,230	0
23	Admin - Property Management Module	6,226	0
	Total	\$ 3,550,666	\$ 260,848

5. Stewardship, Compliance, and Accountability

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

6. Leasing activities

The Port, as a lessor, enters into operating leases with tenants for the use of a significant portion of industrial and marine terminal land under lease terms of 1 to 30 years. In addition, some properties are rented on a month to month basis. Port procedure is to negotiate all leases at fair market value, considering market conditions, economic factors, property condition, and location as well as other factors that may impact negotiating lease prices.

The Port currently has approximately 90 lease arrangements ranging in monthly payments between \$1 and \$10,750 with either fixed increases, Consumer Price Index rent escalation clauses, or market rate rent escalation clauses. Approximately 28 percent of the leases include contract terms allowing one to five lease extensions in 1 to 5 year terms.

Continue on to next page for minimum future rental revenue

Minimum future rental revenue on operating leases is as follows:

Dec 31, 2015	Minimum Future Revenue	Dec 31, 2014	Minimum Future Revenue
2016	1,190,459	2015	\$1,351,693
2017	1,039,275	2016	1,190,459
2018	1,037,596	2017	1,039,275
2019	905,401	2018	1,037,596
2020	835,226	2019	905,401
2021-2025	1,397,200	2020-2024	1,998,510
2026-2030	761,535	2025-2029	843,084
2031-2035	738,048	2030-2034	749,822
2036-2040	644,829	2035-2039	656,495
2041-2045	274,353	2040-2044	403,319
TOTAL	\$8,823,922		\$10,175,654

Operating Leases

The Port leases a Xerox printer and a Pitney Bowes Postage Machine under a non-cancelable operating lease. The future minimum lease payments for these leases are as follows:

Dec 31, 2015	Minimum Future Payments	Dec 31, 2014	Minimum Future Payments
2016	5,477	2015	5,477
2017	2,777	2016	5,477
2018	2,051	2017	2,777
2019	-	2018	2,051
Total	\$ 10,305	Total	\$ 15,782
Pitney Bowes lease ends Nov 2018		Xerox lease ends Feb 2017	
Total	\$10,305	Total	\$15,782

Continue on to next page for Other Noncurrent Assets

7. Other Noncurrent Assets: Contracts & Notes Receivables

Contracts and notes receivable consist of the following:

	Dec 31, 2015	Dec 31, 2014
Real Estate Contracts	0	16,713
Less: Current portion	<u>0</u>	<u>4,617</u>
Real Estate Noncurrent portion	\$0	\$12,096
Rent Repayment Agreement	16,538	31,238
Less: Current portion	<u>14,700</u>	<u>14,700</u>
Rent Repayment Noncurrent portion	\$1,838	\$16,538
Total Noncurrent Contracts & Notes Receivable	\$1,838	\$28,634

- The two active real estate contracts were paid in full January 2015. These two real estate contracts were for two properties sold in the Carlsborg redevelopment area. The first was sold in January 1994 with the final payment scheduled for January 2017. Yearly payments were \$3,185.35 plus interest. The second property was sold in January 1995 with the final payment scheduled for January 2019. Yearly payments were \$1,431.44 plus interest.
- The rent repayment is related to assisting in startup of operations by delaying the payment of rent for the first six months. Yearly payments are \$14,700 with the final payment in February 2017.

8. Current Liabilities – Custodial Account

This account reflects the liability for net monetary assets held by the Port in its capacity as a custodian per the Participation Agreement for the Western Port Angeles Harbor (“Group”) signed April 14, 2013 which designates the Port of Port Angeles as the Group’s “Cashier”. The agreement terminates upon receipt of a certification by Department of Ecology that the work under the Agreed Order for the Remedial Investigation and Feasibility Study has been satisfactorily completed (See *Note 15. Pollution Remediation Obligations for more information.*) The Port does not have the authority to make independent decisions with the money for the benefit of the Group. Per the agreement the Cashier’s actions are directed by the voting results of the Group, such as to collect partner contributions and to pay consultant invoices.

	Dec 31, 2015	Dec 31, 2014
Custodial Account	\$ 198,517	\$ 41,302

The Custodial Account balance reflects only the share of assets contributed by the three external Group participants. It does not reflect the Port’s portion. The balance of funds remaining at the end of the year, are equally split between the other three participants (2015 is \$66,172; 2014 is \$13,767). The Port’s contributed share, as well as the other Group participants, is reflected in restricted cash. (See *note 15. Pollution Remediation Obligations for more information.*)

Continue on to next page for Accrued Liabilities

9. Accrued Liabilities

These accounts consist primarily of payroll related liabilities (accrued wages, payroll taxes, employee benefits), estimate of current portion of employee leave benefits (vacation, sick), excise taxes (leasehold and business and occupation), bond interest, and other accrued expenses (audit fees, boatyard agency bonus).

	Dec 31, 2015	Dec 31, 2014
Payroll, Taxes & Benefits	156,205	140,134
Employee Leave Benefits (current)	59,900	47,900
Excise Taxes (Leasehold, B&O)	9	(6,833)
Bond Interest	25,930	33,263
Other Accrued Expenses	282,612	30,000
Total Accrued Liabilities	\$ 524,657	\$ 244,464

10. Long-Term Liabilities

Long-term liabilities activity for the year ended December 31, 2015 was as follows:

	Interest Rate	Year Last Series Matures	January 2015	Additions	Reductions	December 2015	Due Within One Year
<u>General Obligation (GO) Bonds:</u>							
April 20, 2006	4.00 - 4.75	2025	3,485,000	0	3,485,000	0	0
December 2010 - A	7.50	2030	760,000	0	0	760,000	0
December 2010 - B	4.00 - 5.00	2029	3,435,000	0	0	3,435,000	0
May 10, 2012	2.00	2016	935,000	0	460,000	475,000	475,000
October 26, 2015	2.29	2025	<u>0</u>	<u>3,251,350</u>	<u>0</u>	<u>3,251,350</u>	<u>293,703</u>
GO Bonds			<u>\$8,615,000</u>	<u>3,251,350</u>	<u>3,945,000</u>	<u>7,921,350</u>	<u>768,703</u>
(Discount)/Premium			<u>31,218</u>	<u>52,480</u>	<u>65,685</u>	<u>18,013</u>	<u>12,323</u>
Long-Term Debt			<u>\$8,646,218</u>	<u>\$3,303,830</u>	<u>\$4,010,685</u>	<u>\$7,939,363</u>	<u>\$781,026</u>

In addition to the above liabilities that are known and measurable, the following estimated liabilities are included in long term liabilities on the Statement of Net Position.

	January 2015	Net Changes Additions (Reductions)	December 2015	Due Within One Year
<u>Estimated Long-Term Liabilities:</u>				
Environmental Remediation	\$2,020,000	-656,382	1,363,618	658,000
Other Post Employment Benefits	\$390,442	177,070	567,512	
Pension Liability	1,540,233	501,936	2,042,169	59,900
Employee Leave Benefits	<u>467,955</u>	<u>13,411</u>	<u>481,366</u>	<u>0</u>
Total Estimated Long-Term	<u>\$4,418,630</u>	<u>\$36,035</u>	<u>\$4,454,665</u>	<u>\$717,900</u>

For more information see Note 1 on Employee Leave Benefits, see Note 13 on Other Post Employment Benefit Plans (OPEB), and see Note 15 on Pollution Remediation Obligations.

Long-term liabilities activity for the year ended December 31, 2014 was as follows:

	Interest Rate	Year Last Series Matures	January 2014	Additions	Reductions	December 2014	Due Within One Year
General Obligation (GO) Bonds:							
April 20, 2006	4.00 - 4.75	2025	3,730,000	0	245,000	3,485,000	255,000
December 2010 - A	7.50	2030	760,000	0	0	760,000	0
December 2010 - B	4.00 - 5.00	2029	3,435,000	0	0	3,435,000	0
May 10, 2012	2.00	2016	<u>1,385,000</u>	<u>0</u>	<u>450,000</u>	<u>935,000</u>	<u>460,000</u>
GO Bonds			<u>\$9,310,000</u>	<u>0</u>	<u>695,000</u>	<u>8,615,000</u>	<u>715,000</u>
(Discount)/Premium			<u>44,420</u>	<u>2,760</u>	<u>15,962</u>	<u>31,218</u>	<u>13,202</u>
Long-Term Debt			<u>\$9,354,420</u>	<u>\$2,760</u>	<u>\$710,962</u>	<u>\$8,646,218</u>	<u>\$728,202</u>

In addition to the above liabilities that are known and measurable, the following estimated liabilities are included in long term liabilities on the Statement of Net Position.

	January 2014	Net Changes Additions (Reductions)	December 2014	Due Within One Year
Estimated Long-Term Liabilities:				
Environmental Remediation	\$1,100,000	920,000	2,020,000	990,000
Other Post Employment Benefits	272,126	118,316	390,442	0
Pension Liability	0	-	0	0
Employee Leave Benefits	<u>450,203</u>	<u>17,751</u>	<u>467,954</u>	<u>47,900</u>
	<u>\$1,822,329</u>	<u>1,056,067</u>	<u>\$2,878,396</u>	<u>\$1,037,900</u>

For more information see Note 1 on Employee Leave Benefits, see Note 13 on Other Post Employment Benefit Plans (OPEB), and see Note 15 on Pollution Remediation Obligations.

Continue on to next page for General Obligation Debt

General Obligation Debt

The aggregate debt service on general obligation debt as of December 31, 2015 was as follows:

Year	Principal	Interest	Total
2016	768,703	304,881	1,073,584
2017	402,841	288,655	691,496
2018	417,099	277,635	694,734
2019	426,807	266,202	693,009
2020	441,099	254,547	695,646
2021-2025	2,389,800	1,077,440	3,467,240
2026-2030	3,075,000	569,125	3,644,125
2031-2035	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$7,921,349	\$3,038,485	\$10,959,834

The aggregate debt service on general obligation debt as of December 31, 2014 was as follows:

Year	Principal	Interest	Total
2015	715,000	390,568	1,105,568
2016	740,000	369,255	1,109,255
2017	380,000	347,168	727,168
2018	400,000	330,405	730,405
2019	415,000	313,680	728,680
2020-2024	2,355,000	1,291,051	3,646,051
2025-2029	2,935,000	714,363	3,649,363
2030-2034	<u>675,000</u>	<u>50,625</u>	<u>725,625</u>
Total	\$8,615,000	\$3,807,115	\$12,422,115

On April 1, 2006, the Port issued \$4,995,000 of Limited Tax General Obligation bonds with coupon rates between 4.00% and 4.75%. Proceeds from these bonds partially funded a major renovation of the Port Angeles Boat Haven. This renovation was completed in 2008. Proceeds were also used to refund bonds that were used for approximately 25 projects in the 1993-1998 Capital Improvement Plan. These bonds were refinanced on October 26, 2015 with the 2015 Refunding LTGO bonds.

On December 22, 2010 the Port issued \$4,195,000 of Limited Tax General Obligation bonds. Proceeds from these bonds were used to expand facilities at the Port's Composite Manufacturing Campus. Bond series A is eligible for a Federal rate subsidy thereby reducing the stated 7.50% interest rates to approximately 3.375%.

On June 1, 2012 the Port issued \$1,830,000 of Limited Tax General Obligation bonds with a coupon rate of 2.00%. Proceeds were used to refund (refinance) series 2002B LTGO bonds (the 2002B bonds were used to refund the callable portion of 1992 LTGO bonds; the 1992 bonds were used for improvements at airports, marinas and waterfront areas as part of the Ports 1993-1995 capital projects). The 2012 refunding resulted in present value savings of approximately \$170,000.

On October 26, 2015 the Port issued \$3,251,350 of Limited Tax General Obligation bonds with a coupon rate of 2.29%. Proceeds were used to refund (refinance) 2006 LTGO bonds (the 2006 bonds were used to fund a major renovation of the Port Angeles Boat Haven and to refund bonds that were used for approximately 25 projects in the 1993-1998 Capital Improvement Plan). The 2015 refunding resulted in present value savings of approximately \$300,000.

These bonds are subject to federal tax arbitrage regulations. The Port is required to comply with certain requirements of the Internal Revenue Code of 1986, after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds

and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The Port's outstanding bond issues qualified for the small issuer exemption with respect to arbitrage rebate. The Port has covenanted in the Bond Resolution to comply with those applicable requirements.

Limitation of Indebtedness

Revised Code of Washington (RCW) 39.36 and 53.36 provide that non-voted general obligation debt cannot be incurred in excess of 0.25 percent assessed value of the taxable property in the port district.

	Dec 31, 2015	Dec 31, 2014
Assessed Valuation (AV) for prior year	\$ 7,054,903,078	\$ 7,002,941,388
.75% General Purpose Limit	52,911,773	52,522,060
.25% Non-Voted Limit	17,637,258	17,507,353
Outstanding Non-Voted Debt	7,921,350	8,615,000
Non-Voted Debt Capacity	\$ 9,715,908	\$ 8,892,353

11. Passenger facility charges

In 1993, the Commission of the Port of Port Angeles authorized Port management to proceed with application to the Federal Aviation Administration (FAA) for the right to impose passenger facility charges (PFCs) on enplaned passengers at the Port's airport facility. The PFCs generate revenue to be used by the Port for projects eligible under the federal legislation permitting the imposition of PFCs. PFCs collected by the Port are recognized as revenue in the period which they are collected. The Port reinstated PFCs of \$3.00 per passenger, effective September 1, 1996; extension of PFC #3 collections was approved in 1997 for \$105,000; PFC #4 collections was approved in 1998 for \$122,650; PFC #5 collections was approved in 2000 for \$211,683; PFC #6 collections was approved in 2003 for \$313,484; and PFC #7 collections was approved in 2008 for \$191,838; PFC#8 collections was approved in 2012 for \$161,209.

12. Pension Plans

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$2,042,169
Pension assets	\$ -
Deferred outflows of resources	\$ 266,840
Deferred inflows of resources	\$ 314,891
Pension expense/expenditures	\$ 218,344

Substantially all Port of Port Angeles full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The 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 and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state 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 services. 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 Fund Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows

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

* Employees participating in the Judicial Benefit Multiplier program had a contribution rate of 12.26%

The Port's actual contributions to the plan were \$0 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) time 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 early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are 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 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 CPI), capped at three percent annually and 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 earning 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 rate 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, that state Pension Funding Council adopts PLAN 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

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

* Employees participating in the Judicial Benefit Multiplier program had a contribution rate of 15.3%.

The Ports actual contributions to the plan were \$246,813 for the year ended December 31, 2015.

Actuarial Assumptions

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

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

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

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

To determine that rate, an asset sufficiency test included and assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS2, SERS2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of Net Pension Liability

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.

Port Proportionate Share	1% Decrease	Current Rate	1% Increase
	6.50%	7.50%	8.50%
PERS 1	1,320,926	1,084,947	882,027
PERS 2/3	2,798,967	957,222	(452,933)

*See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015 the Port reported a total pension liability of \$2,042,169 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	1,084,947
PERS 2/3	957,222

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	2.0160%	2.0741%	0.0581%
PERS2/3	2.5956%	2.6790%	0.0834%

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

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

Pension Expense

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

	Pension Expense
PERS 1	97,087
PERS 2/3	121,256

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$-	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$59,358
Changes of assumptions	\$-	\$-
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$59,282	
TOTAL	\$59,282	\$59,358

PERS 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$101,753	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$255,533
Changes of assumptions	\$1,542	\$-
Changes in proportion and differences between contributions and proportionate share of contributions	\$26,835	
Contributions subsequent to the measurement date	\$77,427	
TOTAL	\$207,557	\$255,533

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

Year ended December 31:	PERS 2 & 3
2016	\$7,893
2017	\$7,893
2018	\$7,893
2019	\$3,157
2020	\$-
Thereafter	\$-

13. Other Post-Employment Benefit (OPEB) Plans

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

As per the GASB Statement No. 45 Summary, "In addition to pensions, many state and local governmental employers provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."

Plan Description

The Port provides medical, dental, life, and long-term disability insurance to its employees and Commissioners through the Washington State Public Employees Benefit Board (PEBB). Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Other post-employment benefits (OPEB) are benefits provided to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. PEBB offers retirees access to all of these benefits. However, PEBB employers provide monetary assistance, or subsidies, only for medical, prescription drug, life, and vision insurance.

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504-0914 or it may be downloaded from the Office of the State Actuary website at <http://osa.leg.wa.gov>.

Subsidies

The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount for a specific group of people. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually.

The implicit subsidy, set up under RCW 41.05.022, is more complex because it is not a direct payment from the employer on behalf of the member. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retirees.

Before 2012, these subsidies were not projected and accounted for under accrual basis accounting. Accrual accounting is meant to match the timing between when something occurs and when it is accounted for. In this case, it is meant to match the expense to the year in which the benefits are earned by the member.

Funding Policy

Pay-as-you-go funding occurs when an employer chooses to contribute (pay) for benefits only when they occur or become due (after retirement). Before 2012, this cost was expensed as the Port paid the current year's subsidies. However, the unfunded liability, which is the difference between what the Port accrues (assuming on-going future payments) and what the Port currently pays, was growing and was not accounted for under the pay-as-you-go method.

GASB Statements No. 43 (*Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*) and 45 (*Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*) are related and were created in an attempt to:

- Create financial transparency.
- Create better alignment between public and private sector accounting.
- Provide clarity among bargaining groups to show the true cost of benefits over time.
- Provide employers knowledge of the true cost of benefits over time.
- Provide investors knowledge of the true long-term liabilities.
- Show the decision makers a cost that they need to recognize.

The Port funds the implicit and explicit subsidies on a pay-as-you-go basis, meaning that Port pays these costs as they occur or become due.

Annual OPEB Cost and Net OPEB Obligation

The Port's annual other post-employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB. The net OPEB obligation is included as a noncurrent liability in the Statement of Net Position.

	Fiscal Year Ending Dec 31, 2015
Determination of the Annual Required Contribution:	
Normal cost at Year End	98,795
Amortization of Unfunded Actuarial Accrued Liability	124,859
Annual Required Contribution	223,654
Determination of the Annual OPEB Cost:	
Annual Required Contribution	223,654
Net OPEB Obligation Interest	15,618
Net OPEB Obligation Amortization	(22,579)
Annual OPEB Cost	216,693
Determination of the Net OPEB Cost:	
Starting Net OPEB Obligation	390,442
Annual OPEB Cost	216,693
Contributions	(39,622)
Net OPEB Obligation	567,513

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions	Contribution as a % of OPEB Cost	Net OPEB Obligation
12/31/2015	\$ 216,693.00	\$ 39,622.00	18.28%	\$ 567,513.00

Funded Status and Funding Progress

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. Even if the Port left the PEBB program, the Port would not be able to get the money out of the trust.

Fiscal Year Ended	Funded Status Amount	Funded Status Percent
12/31/2015	\$0	0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The following supplementary information will present multi-year trend information as it becomes available, which will show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Methods and Assumptions

We used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.40 was assumed for all active members to determine the Actuarial Accrued Liabilities (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were

assumed to follow the PERS 2 rates used in the June 30, 2015 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2015. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligations (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Continue on to next page for Risk Management

14. Risk Management

The Port maintains commercial insurance coverage against most normal hazards:

Type of Coverage	Limit	Aggregate Limit	Deductible	Comments
General Liability	\$1,000,000	\$3,000,000	\$10,000	
Commercial Auto Liab.	\$1,000,000	N/A	None	
Excess Liability	\$50,000,000	N/A	None	Over 1 st \$1 million of Loss
Airport Liability	\$20,000,000	\$20,000,000	None	Aggregate applies to Products/Completed, Operations and Personal & Advertising Injury and the Extended Coverage Endorsement
Commercial Property – All Other Perils	\$1,000,000,000	N/A	\$25,000	
Commercial Property – Flood	\$50,000,000	\$50,000,000	\$100,000 or \$250,000	Deductible depends on Flood Zone
Commercial Property – Earthquake	\$25,000,000	\$25,000,000	5% with a minimum \$100,000	
Commercial Property – Boiler & Machinery Equip Breakdown	\$100,000,000	N/A	\$10,000	
Cyber – Info Security & Privacy Liability	3 rd party limit of \$2,000,000	\$2,000,000	\$50,000	Aggregate for all coverages combined but sublimited to all Cyber classifications below
Cyber – Privacy Notification	3 rd party limit of \$500,000	\$500,000	\$50,000	Limit is \$1,000,000 if use Beazley vendor services
Cyber – Website Media Content Liability	3 rd party limit of \$2,000,000	\$2,000,000	\$50,000	
Cyber – Extortion	\$2,000,000	\$2,000,000	\$50,000	First Party Computer Security
Cyber – Data Protection Loss and Business Interruption Loss	\$2,000,000	\$2,000,000	\$50,000	First Party Computer Security
Public Officials' Liability	\$5,000,000	\$5,000,000	\$25,000	
Blanket Fidelity Bond	\$2,000,000	N/A	\$2,500 per claim	Covers all employees to include Faithful Performance of Duty
Hull & Machinery for owned Watercraft	\$15,000 to \$80,000	N/A	\$1,000 to \$2,500	per Schedule of owned watercraft; varies based on value of boat
Protection & Indemnity for owned Watercraft	\$1,000,000	N/A	\$5,000	For owned watercraft
Storage Tank Pollution Liability	\$1,000,000	\$1,000,000	\$10,000	
Foreign Liability	\$1,000,000	\$4,000,000	\$500 to \$1,000	Covers General, Auto and Employers Liability

The Port is self-insured for unemployment insurance coverage. The Port has reserved \$7,381 to cover the estimated average annual cost based on a review of claims over a 10 year period.

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

The Port has not entered into any insurance settlements in the last three years which exceeded insurance coverage.

15. Pollution Remediation Obligations

The Port of Port Angeles is subject to laws and regulations relating to the protection of the environment. The Port's policy is to accrue environmental and cleanup related costs when it is both probable that a liability has been incurred and when the amount can be reasonably estimated.

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

At this time, the Port has determined that future investigation and cleanup costs associated with the following three sites constitute the Port's pollution remediation obligations. The sites require investigation and potential remediation in order to comply with state environmental laws and regulations. Investigation costs are currently reimbursed under older commercial general liability policies. Future cleanup costs are subject to negotiations and litigation.

Although investigation costs for the three sites are currently being reimbursed under older commercial general liability policies, the Port disagrees with the insurance carrier's characterization of those benefits. In January 2015 the Port filed a law suit against the insurance carriers seeking (1) contract damages based on the defense and indemnification provisions of the liability insurance policies, (2) adjudication of respective rights, duties and obligations of the parties under the liability insurance policies, and (3) costs for bringing the action.

Continue on to next page for Amount of Estimated Liability

Amount of Estimated Liability
Net of Related Insurance and Potentially Liable Person (PLP) Recoveries

	Basis of Obligation for 2015	Dec 31, 2015	Dec 31, 2014
Marine Trades Area	<p>2015: Engineering and consultant cost estimates (2016-2020) of \$1,672,360, offset by anticipated recoveries of \$1,594,742.</p> <p>2014: Engineering and consultant cost estimates (2015-2019) of \$1.65 million, other costs of \$.11 million, offset by anticipated recoveries of \$1.62 million.</p>	\$ 77,618	\$ 140,000
K-Ply Site ¹	<p>2015: Engineering and consultant cost estimates (2016-2020) of \$1,099,000, other costs of \$36,200, offset by anticipated recoveries of \$1,135,200.</p> <p>2014: Engineering and consultant cost estimates (2015-2019) of \$5.98 million, other costs of \$.13 million, offset by anticipated recoveries of \$5.67 million.</p>	\$ 0	\$ 440,000
Western Harbor Area ²	<p>2015: Consultant cost estimates (2016-2020) of \$20,000.</p> <p>2014: Engineering and consultant cost estimates (2015-2019) of \$1.91 million, other costs of \$.12 million, offset by anticipated recoveries of \$1.86 million.</p>	\$ 50,000	\$ 170,000
Former Kardlock Facility	<p>2015: Engineering and consultant cost estimates (2016-2020) of \$1,980,000, other costs of \$50,000, offset by anticipated recoveries of \$1,980,000.</p>	\$ 20,000	n/a
Program-wide	<p>2015: Litigation cost estimates (2016-2020) of \$1.16 million, offset by anticipated recoveries included above with each site.</p> <p>2014: Litigation cost estimates (2015-2019) of \$1.27 million, offset by anticipated recoveries included above with each site.</p>	\$ 1,160,000	\$ 1,270,000
Total		\$ 1,307,618	\$ 2,020,000

¹ K-Ply site: the above obligation does not include available grant funds (\$2 million Department of Ecology grant effective March 1, 2012 through October 31, 2016). In 2015 the Port received \$1.8 million insurance payment for prior costs paid by grant funds and Port funds. The insurance proceeds will be used to reimburse prior grant funds from Ecology, thus making these same funds available for future costs, which could include the remediation phase of the K-Ply project and potentially other sites.

² Western Port Angeles Harbor: As of December 31, 2014 and December 31, 2015 information on a proposed cleanup remedy for the Western Harbor Area site was not available or reasonably determinable. The Port estimated completion of the RI/FS (Remedial Investigation/Feasibility Study) and ongoing pollution monitoring liability as a minimum obligation.

Summary of Environmental Sites

Site	Ownership	PLPs per Ecology	Recoveries	Timing
Marine Trades Area (MTA)	Port of PA Westport (<i>Port sold part of the property but retained liability</i>) Pettit Oil (<i>In 2014 Pettit Oil underwent bankruptcy. Chevron, as the former owner, will address the contamination for this part of the site.</i>)	Port of PA ARCO Chevron	Insurance, named PLPs, potential of other unnamed PLPs	2013: Completed RI/FS and DCAP 2014-2015: Ecology reviewed DCAP 2016-2017: Approval and implementation of CAP 2019-2020: Operating costs of CAP
K-Ply Site	Port of PA	Port of PA Rayonier (<i>see DE 90-S255</i>) ExxonMobil	Insurance, Grant funds, potential of unnamed PLPs	2014: Draft RI/FS & DCAP 2015-2016: Approval and implementation of CAP 2016-2020: Monitoring costs of CAP
Western Harbor Area	State Dept of Natural Resources (DNR)	Port of PA City of PA Nippon Paper Merrill & Ring Georgia Pacific Owens Corning WA DNR	Insurance, named PLPs, potential of other unnamed PLPs	2014-2015: Draft RI/FS and approval 2016-2019: monitoring until CAP is defined
Former Kardlock Facility	Port of PA	No Ecology order	Shell and Port will work to determine other PLPs	2016: Sampling 2017-2020: List site with State and notify site PLPs

*PLP is an abbreviation for Potentially Liable Person
 RI/FS is Remedial Investigation/Feasibility Study
 DCAP is Draft Cleanup Action Plan
 CAP is Cleanup Action Plan*

In addition to insurance, the Port intends to aggressively pursue past site operators and former tenants whether or not they are named as a PLP. The Port also intends to apply for State Department of Ecology grant funds.

Methodology for Amount of Estimated Liability

The pollution remediation obligation is an estimate subject to changes resulting from price increases or reductions, technology, or changes in applicable laws and regulations. The Port calculates the amounts of expected recoveries on a site by site basis and reduces its gross liability by the expected value of realized and realizable recoveries. Recoveries through future grant funds that are on a cost-reimbursement basis are excluded from recovery calculations since the grant conditions cannot be met until the costs are incurred (per GASB 33).

The Port worked with financial and environmental consultants to identify and document the status of the current GASB 49 pollution remediation obligations. For each site, the following costs and recoveries were estimated:

- Costs by environmental consultants and attorneys for remedial investigation and feasibility study (all three sites).
- Costs by environmental consultants and attorneys for draft cleanup plan (Marine Trades Area and K-Ply sites).
- Costs by environmental consultants and attorneys for anticipated cleanup plan (Marine Trades Area).
- Recoveries by a consortium of Port general liability insurance carriers (all three sites).
- Recoveries through cost allocation payments by other parties (PLPs) directly to consultants (Marine Trades Area and Western Harbor Area).
- Grant reimbursements by Department of Ecology for costs incurred, but not future costs.

As per GASB 49, "Estimates of a pollution remediation liability should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays due to, for example, changes in the remediation plan or operating conditions. These changes may include the type of equipment, facilities, and services that will be used, price increases or reductions for specific outlay elements such as ongoing monitoring requirements, changes in technology, and changes in legal or regulatory requirements."

The Port evaluates its pollution remediation obligations by updating both forecasts for future outlays as well as recoveries on at least an annual basis and when benchmark events occur.

Summary of Next Benchmark Events

Site	Anticipated Benchmark Event
Marine Trades Area	Acceptance by Ecology of draft cleanup plan (expected in late 2016).
K-Ply Site	Acceptance by Ecology of construction completion report (expected late 2016).
Western Harbor Area	Acceptance by Ecology of remedial investigation/feasibility study (expected in late 2017).
Former Kardlock Facility	Ecology lists the site (expected late 2016)

Nature and Source of Pollution Remediation Obligations

Marine Trades Area

Before the 1920s, the site contained several small wood mills. From the 1920s to 1989, uses included bulk fuel plants, fuel pipelines, log storage, logging truck repair, retail grain supply store, undersea cable saline cure tanks, ship repair, and railroad lines. Chevron, ARCO (Atlantic Richfield Company), Shell and other companies operated or supplied bulk fuel plants. Over the years, fuel pipelines were built and abandoned or removed on parts of the site.

In 2005, the Port along with Chevron entered into an agreed order with the Department of Ecology (DE 5738) to conduct a site investigation to define the extent of contamination at the property. ARCO agreed to fund a share of the work under the agreed order. Based on what was known at the time, the site included the Marine Trades Area, former Pettit Oil site (Chevron as the liable party), and K-Ply properties. As a result of the site investigation, it was determined that two separate plumes of contamination with separate and distinct sources existed within the Marine Trades Area. An amendment to the agreed order was issued on June 26, 2013 that separated the western area of contamination as the Marine Trades Area site (including former Pettit Oil site). The contamination in the eastern area of the site, which was the K-Ply mill site, was addressed in a new, separate agreed order with Department of Ecology (DE 9546).

In August 2013, the Final Remedial Investigation/Feasibility Study was accepted by Ecology. Then in December 2013, a Draft Cleanup Action Plan (DCAP) was submitted to Ecology. Ecology is currently reviewing the DCAP and the Port expects comments in late 2016.

K-Ply Site

In the mid-1920s, prior to being filled by dredge material, the site consisted of a tidal flat with several small wood mills. In the late 1920s the Port developed the Terminal 1 Pier and Standard Oil constructed a wooden pier for oil-barge unloading activities. In 1941, the Peninsula Plywood Mill was constructed and began operations on 12 acres of filled tidelands leased from the Port. ITT Rayonier purchased the mill in 1971 and operated the mill through 1989, when they sold the mill to Klukwan who renamed the mill K-Ply. K-Ply operated as a plywood and veneer mill through 2007. The mill sat vacant between 2007 through 2010, and then was briefly re-opened as PenPly and operated through December 2011.

During the time the mill operated, hydraulic oil leaked from press machinery to soil and pooled on groundwater under the mill structure. In 1990 Ecology issued an agreed order (DE 90-S255) to Rayonier to clean up the hydraulic oil, including extraction, oil recovery and long-term monitoring. Soil cleanup was required for pentachlorophenol impacted soil found in the Panel Oiler area. ITT Rayonier continues to remain liable under the 1990 agreed order which is separate from the Port's agreed order.

On October 15, 2012 the Port entered into an agreed order with the Department of Ecology (DE 9546) that separated the K-Ply mill site (the eastern area of contamination) from the Marine Trades Area Site. The order requires demolition of mill structures, a draft Remedial Investigation/Feasibility Study (RI/FS), and a draft cleanup action plan.

After completing the interim action of the mill demolition and testing at the mill site, more information was obtained on the extent and primary source of gasoline contamination. Historical records indicated the pipeline was installed sometime prior to the mill construction of 1941 and was in operation until approximately October 1968 when it was taken out of service and replaced with pipeline #5. These pipelines served a bulk fuel storage facility named Peninsula Fuel for Mobil Oil. The Port provided Ecology the line of credible evidence with reference to ownership and operation of pipeline #8. With the submission of the RI/FS to Ecology on May 21, 2014, Ecology issued a PLP determination to Exxon/Mobil on November 6, 2014.

The Port submitted a Draft Public Review RI/FS and Draft CAP to Ecology in November 2014. On May 19, 2015 the Port entered into an agreement order with Ecology (No. DE 11302) that requires the implementation of the CAP. The cleanup of the K Ply site began in August of 2015, but was halted in November 2015 due to heavy rain. The cleanup and back filling of the site was completed in May of 2016. The Port anticipates Ecology approval of the cleanup construction completion report in late 2016.

Western Harbor Area Site

The Port owns or formerly owned properties where Fibreboard Corporation and Merrill & Ring operated facilities and released hazardous substances that have become sources of contamination. The Port owns and operates the Boat Haven marina where hazardous substances have been identified. Under a Port Management Agreement, the Port also leases and manages state-owned aquatic lands at the site to facilitate Port operations.

Historically, a number of mills and timber-related industries released wood debris (logs, large and small wood pieces, and pulp-like materials) in the harbor. Additionally, hazardous substances, including metals and dioxin, have resulted in areas of sediment contamination in the nearshore which create chemical plumes spreading throughout the western harbor. The sources of contamination occurred from multiple potentially liable parties (PLPs):

- Georgia Pacific, through a series of mergers and acquisitions is the successor of interest to the owner or operator of a paper mill that released or disposed of hazardous substances. They also leased aquatic lands to facilitate operations.
- Nippon Paper Industries USA is the owner and operator of a paper mill and has a lagoon which is connected by a channel to the harbor. Nippon also leased aquatic lands for its operations.
- Merrill & Ring was the owner and operator of a lumber mill facility and conducted operations on its property and on property leased from the Port. Merrill & Ring also leased aquatic lands for its operations.
- City of Port Angeles has operated eleven combined sewer overflow (CSO) discharge points that discharged untreated wastewater and stormwater directly into the harbor.
- Owens Corning, through a series of acquisition and restructurings, is the successor of interest to the Fibreboard Corporation which owned and operated a mill that released or disposed of hazardous substances. They also leased aquatic lands to facilitate operations.

On May 28, 2013, the Port, along with Georgia Pacific, Nippon Paper, Merrill & Ring and the City of Port Angeles entered into agreed order DE 9781 with the Washington State Department of Ecology (Ecology). The agreed order requires investigation of sediments and identification of ongoing upland sources of contamination that have the potential to result in sediment recontamination at levels greater than prospective sediment cleanup standards.

On April 14, 2013 the Port entered into an agreement with other potentially liable persons (PLPs) as identified by Washington Department of Ecology under the Washington Model Toxics Control Act (MTCA) to form the Western Port Angeles Harbor Group (the "Group"). This agreement created a process for funding the costs of work incurred after February 26, 2013 pursuant to an Agreed Order DE 9781 for a Remedial Investigation/Feasibility Study (RI/FS) in the Western Port Angeles Harbor site. The work includes an environmental assessment, testing, consulting and other professional services with respect to environmental evaluation, management and remedy selection (but not actual remediation). In the summer of 2013 the group began the Remedial Investigation of the Western Harbor.

Each participant is responsible for an equal 25% share of Group costs (Nippon and Merrill & Ring are considered as one participant for funding). All costs paid by the participants under the agreement are subject to reallocation in a subsequent proceeding. The Group account is administered by the Port of

Port Angeles, which is acting as the Group cashier. All funds contributed to the Group account are classified as restricted funds. The Port holds the other participants funds in a custodial capacity. The Port records its share of the costs as a transfer to a restricted fund and recognizes an expense when the invoice is presented for payment. The amount of future contributions are based on work approved by the Group, and would continue on a 25% per share basis, if such work is approved.

The Port of Port Angeles, as Group Cashier, is responsible for (i) managing the Group Account ; (ii) sending out assessments to each Participant for its share of Group Remedial Costs; (iii) sending out a current ledger of the Group Account to each Participant prior to each vote on further assessments of Group Remedial Costs; (iv) making deposits; (v) signing checks for the payment of Group Remedial Costs; (vi) sending default notices for non-payment; and (vii) such other duties as the Participants may delegate. The Group agreement does not create a partnership or joint venture and/or a principal and agent relationship between or among the Participants or their representatives, because the purposes and actions of the Group are specifically limited to payment of authorized costs pursuant to Agreed Order DE 9781. The Group Agreement will automatically terminate upon receipt of a certification by Ecology that the "work" under Agreed Order DE 9781 has been satisfactorily completed. The Agreed Order identifies a completion date of the work as December 2014. Ecology approved the extension based on a series of technical data submissions and review periods. These technical data submissions took the form of a "White Paper" submitted to the Ecology by the Group in May 2014. This White Paper provided an overview of the Groups understanding of cleanup levels, remediation levels and sediment management areas. Since 2014 Ecology has reviewed and provided comments on the White Paper that correspond with the public release of the Ecology Final North Olympic Peninsula Regional Background Report in February 2016 and Sediment Cleanup Users Manual II in March 2016. It is anticipated that Ecology will approve the White Paper in August 2016 and then the Group has 90-days to submit the first draft of the RI/FS. Currently we estimate the new submission date for the RI/FS will be late 2016 to early 2017. Subject to a number of variables within the Agreed Order schedule the estimated final RI/FS will be approved late 2017.

The Group contributions and share of costs was as follows:

	Dec 31, 2015	Dec 31, 2014
Other PLP Beginning Balance	\$ 41,302	\$ 445,135
Other PLP Contributions	277,088	30,000
Other PLP Share of Group Costs	119,873	433,833
Ending Balance of Other PLP	198,517	41,302
Port Beginning Balance	13,767	158,378
Port Contribution	92,363	0
Port Share of Group Costs	39,958	144,611
Ending Balance of Port	66,172	13,767
Total Group Ending Balance	264,689	55,069

In 2014 and 2015, the Port and other PLP share ending balances reflect the 25% share per each PLP.

In August 2013 the Port received notification of Natural Resource Damages Claim being sought by Port Angeles Harbor Natural Resource Trustee Council (Trustees). The Trustees are the National Oceanic and Atmospheric Administration (NOAA) of the U.S. Department of Commerce, the United States Fish and Wildlife Service of the U.S. Department of Interior (USFWS), the Washington Department of Ecology (Ecology), the Lower Elwha Klallam Tribe, the Port Gamble S'Klallam Tribe, and the Jamestown S'Klallam Tribe. On May 1, 2014 the Port received a proposed natural resource

damage assessment from the Trustees. Their assessment provided a range of damages for the entire harbor (approximately 2100 acres) from 508 to 1,323 discounted service acre years (DSAYs). The Port as one member of the Western Port Angeles Harbor Group (Group) is evaluating the Trustees claim. The amount of liability, if any, and actual damages is undeterminable at this time. Effective February 15, 2016 the Group entered into a tolling agreement with the Trustees to facilitate possible future settlement negotiations. The tolling agreement does not constitute or imply any admission or acknowledgement of any fact, conclusion of law, or liability by any Party.

Former Kardlock Facility

The Port owns the property at 220 Marine Drive known as the Former Kardlock Facility. This site is located to the east of Tumwater Creek, and approximately 1,000 feet inland (south) of the Port Angeles Harbor. The adjacent property to the north is a Pettit Oil facility (a former Chevron bulk plant) that is part of the larger Marine Trades Area petroleum cleanup site. The property is currently utilized for parking, and was formerly occupied by a Shell Oil bulk plant on its central and western portions and a Pettit Oil Kardlock station on its eastern portion. Approximately six aboveground storage tanks (ASTs) and an associated refueling rack and pump house owned by Shell were removed from the center of the property in 1984. It is assumed that the bulk terminal handled gasoline, diesel fuel, and other common petroleum products. Five additional gasoline and diesel underground storage tanks (USTs) and related fueling equipment were removed from the east side of the property by Pettit Oil in 1999. Pettit Oil also removed approximately 2,400 tons of petroleum contaminated soil from the property as part of tank removal; however, some diesel range organics (DRO) contamination remained in soil to the north of the former USTs. A limited number of soil borings were also advanced in the alleyway between the Marine Trades Area Pettit Oil property and the Shell Oil bulk plant, as well as on the bulk plant property, by Shannon & Wilson as part of the Marine Trades Area investigation in 1995. One permanent monitoring well, MW 5, was also installed on the property. This investigation identified gasoline range organics (GRO) contamination in soil and groundwater at one monitoring well along the northern boundary of the Shell Oil bulk plant, in the presumed downgradient direction from the former ASTs. The contamination from the Shell Oil bulk plant was not considered to have comingled with downgradient contamination emanating from the other Marine Trades Area facilities, so was not included in the Marine Trades Area site.

Because of the past activities at the site the Port conducted soil and groundwater sampling at the property in March of 2016. The results of these sampling detailed separate areas of soil and groundwater petroleum contamination at the former Shell Oil bulk plant location and the former Pettit Oil Kardlock location.

Following final review of 2016 sampling data the Port will notify Ecology within 90 days of the contamination observed and then Ecology will most likely list the property as a distinctive cleanup site. Ecology will then notify anyone that may be a PLP.

16. Contingencies

The Port is a defendant in various legal actions and claims, which arise during the normal course of business, some of which may be covered by insurance. Final disposition of these actions and claims are not determinable and, in the opinion of management, the outcome of any litigation of these matters, except as discussed under Note 15 Pollution Remediation Obligations, will not have a material effect on the financial position or results of operations of the Port.

As discussed in Note 15, the Port is liable for pollution remediation obligations.

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

17. Other Disclosures

In 2015, the Port implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. Per the guidance of GASB 68, the Port recorded a decrease of \$2,114,344 in an adjustment to Beginning Net Position to accrue the Port's net pension liability prior to 2015.

Prior Period Adjustment	For Year Ending December 31, 2015	For Year Ending December 31, 2014
Beginning Net Position	60,057,704	57,948,541
Restate Beginning Net Position per GASB 68 implementation	(2,114,344)	-
Adjusted Beginning Net Position	57,943,360	57,948,541
Increase in Net Position	2,883,386	2,109,162
Ending Net Position	60,826,746	60,057,703

In 2014 there were no prior period adjustments.

Reclassifications

Line of Business Presentation Change: In 2014, approximately \$1 million in rental revenues and approximately \$0.3 million in related expenses were moved from Property Rentals to Airports for leased assets (land, buildings and improvements) that are located within the boundaries of the airport layout plan. Also, passenger facilities charges are presented in Non-Operating activity instead of Airports.

Subsequent Events

2014 Financial Statements

As of December 31, 2014 information regarding insurance reimbursement for the K-Ply mill demolition costs was unresolved due to a disagreement over the proper characterization of costs covered by insurance benefits. In April 2015 the Port received an insurance payment for the amount of the K-Ply mill demolition costs of approximately \$1.8 million. See Note 15 Pollution Remediation Obligations for more information.

Continue on to next page for Fairchild International Airport Passenger Facility Charges

FAIRCHILD INTERNATIONAL AIRPORT

SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED

Year Ended December 31, 2015

	Mar-15	Jun-15	Sep-15	Dec-15	Total
Unexpended PFCs and Interest, Beginning of Period	\$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	274.48	417.56	569.40	475.96	1,737.40
Interest Earned	0.00	0.00	0.00	0.00	0.00
Total	274.48	417.56	569.40	475.96	\$1,737.40
Expenses/Expenditures	274.48	417.56	569.40	475.96	\$1,737.40
Unexpended PFC and Interest	0.00	0.00	0.00	0.00	0.00

Year Ended December 31, 2014

	Mar-14	Jun-14	Sep-14	Dec-14	Total
Unexpended PFCs and Interest, Beginning of Period	\$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	2,323.25	5,508.30	3,888.48	2,705.24	14,425.27
Interest Earned	0.00	0.00	0.00	0.00	0.00
Total	2,323.25	5,508.30	3,888.48	2,705.24	\$14,425.27
Expenses/Expenditures	2,323.25	5,508.30	3,888.48	2,705.24	\$14,425.27
Unexpended PFC and Interest	0.00	0.00	0.00	0.00	0.00

NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED

1. BASIS OF ACCOUNTING

This schedule is prepared generally on the same basis of accounting as the Airport's financial statements. However, while the Airport uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented represent only those receipts actually received for the quarter reported. PFC revenues not received prior to the end of each quarter are not accrued and are reported as revenues of the subsequent reporting period.

2. PROGRAM COSTS

The amounts shown as current year revenues and expenses represent only the Passenger Facilities Charges portion of the project costs. Entire project costs may be more than shown.

REQUIRED SUPPLEMENTAL INFORMATIONOther Postemployment Benefits
Schedule of Funding Progress

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2015	\$0	\$2,159,058	\$2,159,058	0%	\$2,712,304	80%
12/31/2014	\$0	\$1,507,940	\$1,507,940	0%	\$2,619,056	58%
12/31/2013	\$0	\$1,395,669	\$1,395,669	0%	\$2,249,402	62%
12/31/2012	\$0	\$1,866,869	\$1,866,869	0%	\$2,301,349	81%

PORT OF PORT ANGELES

Required Supplemental Information

December 31, 2015

The Port of Port Angeles is presenting Required Supplemental Information (RSI) to meet the minimum financial reporting requirements and is an integral part of the accompanying financial statements. RSI general includes schedules, statistical data, and other information.

Port of Port Angeles Schedule of Employer Contributions Department of Retirement Systems PERS Plan 1 As of December 31, 2015 Last 10 Fiscal Years*											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Statutorily or contractually required contributions	\$59,282										
Contributions in relation to the statutorily or contractually required contributions	(\$59,282)										
Contribution deficiency (excess)	\$-										
Covered employer payroll	\$1,504,107										
Contributions as a percentage of covered employee payroll	3.94%										

Port of Port Angeles Schedule of Employer Contributions Department of Retirement System Pers 2/3 As of December 31, 2015 Last 10 Fiscal Years*											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Statutorily or contractually required contributions	\$77,427										
Contributions in relation to the statutorily or contractually required contributions	(\$77,427)										
Contribution deficiency (excess)	\$0										
Covered employer payroll	\$1,504,107										
Contributions as a percentage of covered employee payroll	\$0										

Port of Port Angeles Schedule of Proportionate Share of the Net Pension Liability Department of Retirement Systems Plan PERS 1 As of June 30, 2015 Last 10 Fiscal Years*											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	%	0.020160%									
Employer's proportionate share of the net pension liability	\$	1,084,947									
TOTAL	\$	1,084,947									
Employer's covered employee payroll	\$	1,504,107									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	72.13%									
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%									

Port of Port Angeles Schedule of Proportionate Share of the Net Pension Liability Department of Retirements Systems PERS 2/3 June 30, 2015 Last 10 Fiscal Years*											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)		0.020741%									
Employer's proportionate share of the net pension liability	\$	957,222									
TOTAL	\$	957,222									
Employer's covered employee payroll	\$	1,504,107									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	63.64%									
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%									