

Board of Commissioners  
Port of Kennewick  
Kennewick, Washington

We have audited the financial statements of Port of Kennewick as of and for the year ended December 31, 2015, and have issued our report thereon dated August 5, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings**

#### ***Qualitative aspects of accounting practices***

##### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Port of Kennewick are described in Note 1 to the financial statements.

As described in Note 1, Port of Kennewick adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 – Accounting and Financial Reporting for Pensions. This statement changed accounting policies related to the accounting and financial reporting of Port of Kennewick’s share of the defined benefit pension liabilities/assets and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the State of Washington Public Employees Retirement System (PERS). The January 1, 2015 balance of the net pension liability and related deferred outflows of resources is reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to beginning net position. The year-end impact of this statement to net position is reflected in the Statement of Net Position. The change from the beginning net pension liability as of January 1, 2015 to the net pension liability as of December 31, 2015 is reflected in deferred outflows, deferred inflows, and in operating expenses.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no accounting estimates affecting the financial statements which were particularly sensitive or required substantial judgments by management. The most sensitive estimate(s) affecting the financial statements was (were):

- Management's estimate of the useful lives of depreciable assets is based on management's estimate of the remaining useful lives of an asset. We evaluated the key factors and assumptions used to develop the useful lives of depreciable assets in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allocation of indirect costs is based on a reasonable and consistent basis using factors as direct payroll allocation, square footage, full time equivalents within each department, and total direct expenses. We evaluated the key factors and assumptions used to develop the allocation of indirect costs in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability and related expense and deferred inflows and outflows of resources relating to the Port of Kennewick's participation in the Washington State Department of Retirement System (DRS), a multi-employer cost-sharing defined benefit pension plan, is based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the estimate for the pension related balances in determining that they are reasonable in relation to the financial statements taken as a whole.

#### Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure of a significant special item related to the disposal of operating assets and the ongoing decommissioning activities from that disposal in Note 6 to the financial statements.
- The disclosure of the adoption of GASB Statement No. 68 in Note 1 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### **Difficulties encountered in performing the audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Uncorrected misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

#### **Corrected misstatements**

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

#### **Disagreements with management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

**Management representations**

We have requested certain representations from management that are included in the management representation letter dated August 5, 2016.

**Management consultations with other independent accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the entity’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

In connection with the entity’s annual report, we did not perform any procedures or corroborate other information included in the annual report. Our responsibility for such other information does not extend beyond the financial information identified in our auditors’ report. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in such documents. However, as required by professional standards, we read management’s discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. We did not identify any material inconsistencies between the other information and the audited financial statements.

Our auditors’ opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

This communication is intended solely for the information and use of the Board of Commissioners and management of Port of Kennewick and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Yakima, Washington  
August 5, 2016



**PORT OF KENNEWICK**  
**BENTON COUNTY, WASHINGTON**

**1699**  
MCAG No.

**ANNUAL FINANCIAL REPORT**

Submitted pursuant to RCW 43.09.230

to the

WASHINGTON STATE AUDITOR'S OFFICE

**For the Fiscal Year Ended  
December 31, 2015**

Certified correct as of May 15, 2016 to the best of my knowledge and belief:

**PREPARED BY:**

**FINANCE DEPARTMENT**

**TAMMY FINE, CPA, CFE**

**CHIEF FINANCIAL OFFICER & AUDITOR**

**TELEPHONE: (509) 586-7978**

**PORT OF KENNEWICK**  
**ANNUAL FINANCIAL REPORT**  
**For the Year Ended December 31, 2015**

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# **PORT OF KENNEWICK**

## **ANNUAL FINANCIAL REPORT**

**For the Year Ending December 31, 2015**

### **2015 COMMISSIONERS**

Don Barnes	President
Skip Novakovich	Vice President
Thomas Moak	Secretary

### **2015 PORT OFFICERS/DIRECTORS**

Tim Arntzen	Chief Executive Officer
Tammy Fine	Chief Financial Officer
Tana Bader-Inglima	Deputy Chief Executive Officer
Nick Kooiker	Auditor & Assistant Chief Financial Officer
Amber Hanchette	Director of Operations & Real Estate
Larry Peterson	Director of Planning & Development

### **2015 PORT STAFF**

Jen Roach  
Bridgette Scott  
Kandy Yates  
Lisa Schumacher  
Mike Boehnke  
Mike Melia

### **MISSION STATEMENT**

To provide and support sound economic growth opportunities that create jobs and/or improve the quality of life of the Port district citizens.

May 15, 2016

Board of Commissioners  
Port of Kennewick  
350 Clover Island Drive, Suite 200  
Kennewick, WA 99336

Dear Commissioners:

The 2015 Annual Financial Report of the Port of Kennewick (Port) as of and for the year ended December 31, 2015 is hereby submitted for your review. Responsibility for the accuracy of the data, the completeness and fairness of presentation, including all disclosures, rests with the management of the Port. The Port has established a comprehensive framework of internal controls to provide reasonable assurance that the financial statements are free from any material misstatements. I believe the data, as presented, is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the transactions of the Port, and that all disclosures necessary to gain a reasonable understanding of the Port's financial affairs have been included.

The financial report includes detailed financial information as well as statistical data relevant to the operations of the Port. The enclosed Annual Financial Report is prepared using generally accepted accounting principles. The Port's financial statement is audited to ensure it conforms to applicable accounting standards and compliance with State and Federal laws.

A firm of independent auditors is engaged to conduct an audit of the Port's financial statements in accordance with auditing standards generally accepted in the United States of America. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatements. The independent audit report is included in the Annual Financial Report upon audit and is also located at the Washington State Auditor's Office website.

The preparation of this report on a timely basis could not be accomplished without the dedication of the entire Port staff. I would like to express appreciation to all staff members who assisted and contributed to the preparation of this Annual Financial Report. I would also like to thank the Port Commissioners for their interest and support in planning and conducting the Port's financial operations in both a responsible and progressive manner in the best interest of our taxpayers.

Sincerely,

Tammy Fine, CPA, CFE, CGMA



## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Port of Kennewick  
Kennewick, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Port of Kennewick, which comprise of the statement of net position as of December 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Kennewick as of December 31, 2015, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, the Port of Kennewick Implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our Opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port of Kennewick's basic financial statements. The Schedule 01 – Revenues and Expense, Schedule 09 – Schedule of Liabilities, Schedule 15 – Schedule of State Financial Assistance, Schedule 16 – Schedule of Federal Awards, and Schedule 19 – Labor Relations Consultant(s), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule 01 – Revenues and Expense, Schedule 09 – Schedule of Liabilities, Schedule 15 – Schedule of State Financial Assistance, Schedule 16 – Schedule of Federal Awards, and Schedule 19 – Labor Relations Consultant(s), have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Board of Commissioners  
Port of Kennewick

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2016, on our consideration of the Port of Kennewick's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port of Kennewick's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Yakima, Washington  
August 5, 2016

## **Port of Kennewick**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ended December 31, 2015**

#### **INTRODUCTION**

The following is the Port of Kennewick (Port) Management's Discussion and Analysis (MD&A) of financial activities and the performance for the calendar year ended December 31, 2015, with selected comparative information for the year ended 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial activities of the Port, to identify any significant changes in financial position, and to serve as an introduction to the Port's financial statements.

This report also presents certain required supplementary information regarding capital assets and long-term debt activity (if any) during the year, including commitments made for capital expenditures. Information contained in the MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The Statements of Net Position and Revenues, Expenses, and Changes in Net Position provide the Port with an overall financial position and an understanding on the operations of the Port, to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. Over time, increases or decreases in net position may serve as an indicator of whether the Port is financially stable or if there are any concerns.

The Statement of Revenues, Expenses, and Changes in Net Position shows how the Port's net position (assets) changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and noncapital and capital related financing activities. A reconciliation of the cash provided by operating activities to the Port's operating income as reflected on the statement of revenues, expenses, and changes in net position is also included.

The Notes to Financial Statements provide the reader additional detailed information that may not be apparent from the actual financial statements. The Notes to Financial Statements are essential to a full understanding of the data contained in the financial statements and can be found immediately following the financial statements.

## FINANCIAL REPORT

### Financial Highlights

The Port's overall financial condition has improved over the prior year based on several financial highlights stated below:

- The Port has no outstanding debt.
- The Port's overall operating revenues increased by just under \$121 thousand, or 11% from 2014, primarily due to the leasing of Oak Street Development Building A and B.
- The Port's assets and deferred outflows exceeded its liabilities and deferred inflows at close of calendar year 2015 by just nearly \$53 million.
- The 2015 operating expenditures before depreciation decreased by approximately \$75 thousand (4%) in comparison to 2014.
- The Port's nonoperating revenues over nonoperating expenses was just over \$2.7 million.
- The Port's net position increased by approximately \$1.2 million (before implementation of GASB 68) from 2014.
- The Port implemented GASB 68 (a federally mandated accounting treatment) requiring the Port to recognize the Port's share of the State's pension liability in the amount of \$737 thousand with a deferred inflow of \$113 thousand. This is the primary reason the Port's liabilities increased by nearly \$987 thousand from 2014. \$763 thousand of the Port's pension liability impacted prior years, thus requiring a prior period adjustment due to this change in accounting treatment.
- There are no known significant liabilities or contingencies that will negatively impact the Port's future financial position.

### Financial Position Summary

The Statement of Net Position presents the financial position of the Port as of December 31, 2015. The statement includes all the Port's assets, deferred outflows, liabilities, and deferred inflows. As described earlier, the net position serves as an indicator of the Port's financial position. A condensed comparison of the Port's assets, deferred outflows, liabilities, deferred inflows, and net assets at December 31, 2015 and 2014 follows:

<b>PORT OF KENNEWICK'S Net Position</b>		
	<b><u>2015</u></b>	<b><u>2014</u></b>
Current assets	\$ 10,932,477	\$ 11,069,216
Capital assets	43,129,378	41,515,770
Other noncurrent assets & deferred outflow	96,955	28,065
<b>Total assets &amp; deferred outflow</b>	<b><u>54,158,809</u></b>	<b><u>52,613,050</u></b>
Current liabilities	597,935	426,584
Noncurrent liabilities & deferred inflow	1,042,673	112,552
<b>Total liabilities &amp; deferred inflow</b>	<b><u>1,640,608</u></b>	<b><u>539,136</u></b>
Net Position:		
Invested in capital assets, net of related debt	42,972,961	41,442,019
Restricted	-	-
Unrestricted	9,545,241	10,631,895
<b>Total net position</b>	<b><u>\$ 52,518,202</u></b>	<b><u>\$ 52,073,914</u></b>

**Capital Assets:** The Port's investment in capital assets (land, buildings, improvements, machinery and equipment, and construction in progress) for its business activities increased by just over \$1.6 million (net of accumulated depreciation). As described in the notes to the financials, the major capital asset events during 2015 included Clover Island boat ramp, public parking and restrooms, Vista Field redevelopment, Columbia Gardens redevelopment, and 1135 Shoreline restoration project.

**Current and Noncurrent Liabilities:** The Port's noncurrent liabilities consist of two accounting treatments required by Governmental Accounting Standards Board for reporting the Port's share of Pension liabilities and healthcare cost. The Port's noncurrent liabilities and deferred inflow increases amounted to \$930 thousand dollar. These are noncash transactions and are not legal liabilities owed by the Port to any third party.

The Port's current liabilities consist of warrants and retainage payable that cleared in 2016, employee accrued paid time off (compensated absences), lease securities payable, and prepaid rents (unearned revenue).

**Debt:** The Port has no debt.

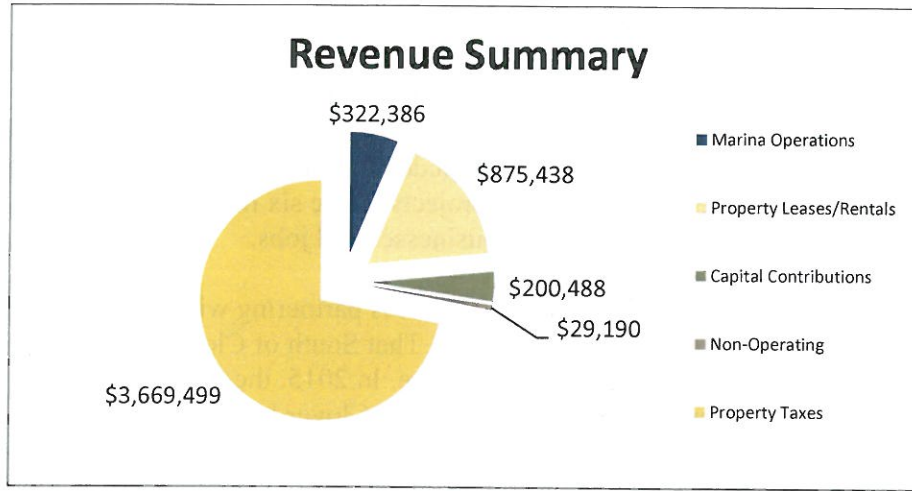
**Net Position:** The Port's net position increase (before GASB 68 implementation) is +/- approximately \$1.2 million in 2015, which represents a healthy organization.

### Financial Operating Highlights Summary

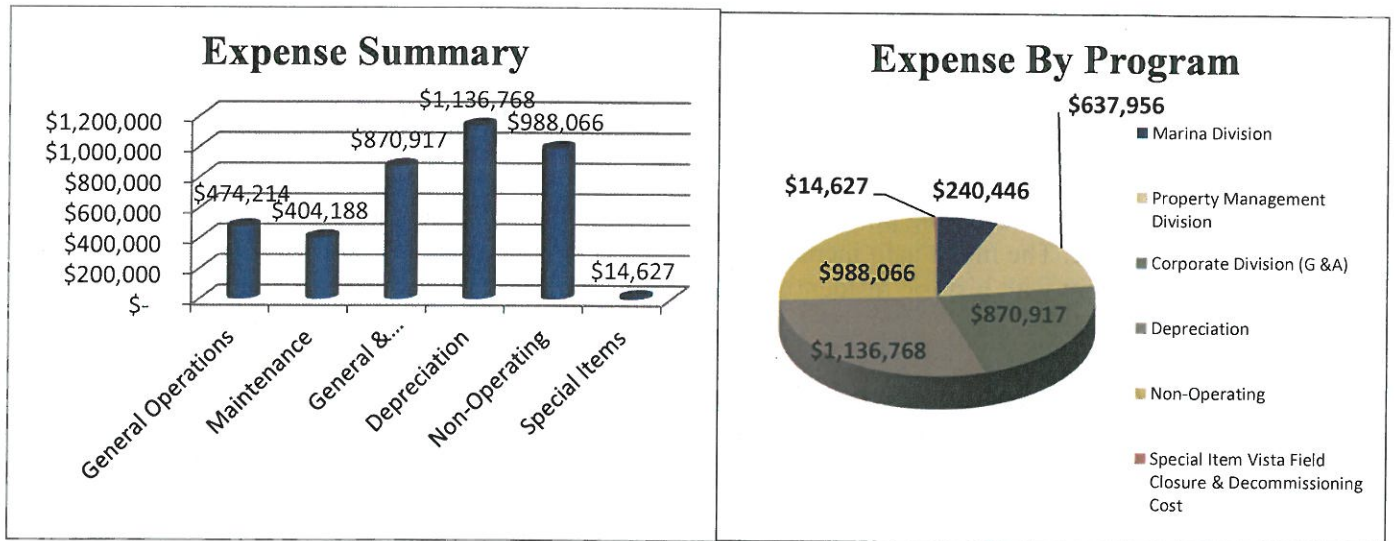
The following condensed financial information summarizes the Port's revenues, expenses, and changes in net position:

Statement of Revenues, Expenses, and Changes in Net Position		
	<b>2015</b>	<b>2014</b>
Operating Revenues	1,197,824	1,076,978
Operating Expenses before depreciation	1,749,319	1,824,398
<b>Total operating loss before depreciation</b>	<b>(551,495)</b>	<b>(747,420)</b>
Depreciation	1,136,768	1,103,481
<b>Total operating loss after depreciation</b>	<b>(1,688,263)</b>	<b>(1,850,901)</b>
Non-operating revenues (expenses)	(958,876)	(423,968)
Ad valorem tax revenues	3,669,499	3,584,495
Total non-operating revenues (expenses)	2,710,623	3,160,527
<b>Increase in net position, before capital contributions</b>	<b>1,022,360</b>	<b>1,309,626</b>
Capital contributions	200,488	5,541
<b>Increase in net position, before special items</b>	<b>1,222,847</b>	<b>1,315,167</b>
Special items	(14,627)	(143,544)
Prior period adjustments (change in accounting treatment - Pension)	(763,933)	0
Net position at beginning of year	52,073,914	50,902,291
<b>Net position at end of year</b>	<b>52,518,202</b>	<b>52,073,914</b>

**Operating Revenues:** 2015 operating revenues amounted to approximately \$1.2 million.



**Operating Expenses:** 2015 operating expenses before depreciation amounted to \$1.7 million.



**PORT OUTLOOK AND ECONOMIC FACTORS**

Port of Kennewick is an economic development entity focused on growing, improving, and sustaining regional employment, tourism, and quality of life. One of the Port’s roles in economic development can be spearheading those projects which the private sector is unable or unwilling to undertake on their own. As a result, the Port is leading efforts to reclaim and revitalize Kennewick’s historic downtown waterfront, and redeveloping land holdings to benefit the regional economy.

**Revitalizing Kennewick's Historic Waterfront.** On Clover Island, the port continues its efforts to bring vitality to downtown Kennewick by transforming the waterfront. The Port is now partnering with the Army Corps of Engineers to restore additional riparian habitat which benefits endangered fish species, and extend the Clover Island Riverwalk from the Lighthouse Plaza along the island's northern shoreline. The Corps should begin design work later this year, with construction anticipated winter of 2017. Also on Clover Island, the Port plans to construct a walkway connecting the existing sidewalks on the island's harbor side. That project includes an art installation honoring the Confederated Tribes of the Umatilla Indian Reservation's historic ties to Kennewick. When finished, these projects create six new commercial development parcels ready to accommodate private-sector buildings, businesses and jobs.

Just south of Clover Island, on Columbia Drive, the port is partnering with the City of Kennewick to redevelop a tired, industrial waterfront neighborhood. That South of Clover Island district surrounds Duffy's Pond between Clover Island Drive and the Cable Bridge. In 2015, the partners constructed a scenic nature path along that interior waterfront which connects back to Clover Island and the regional Sacagawea Heritage Trail. And in 2016, construction will begin on phase one of the Columbia Gardens Wine & Artisan Village—bringing boutique wine-production and tasting rooms to Columbia Drive and tipping the south of Clover Island neighborhood toward vibrancy.

The port will construct, and then lease, those first wine buildings; and the city will construct and manage a winery waste-water, pre-treatment facility. The system allows boutique winemakers to focus on making wine instead of managing effluent—the city will do that instead. The city will also install streetscape, and the port has planned future public artworks, including a mural honoring the Latino community's contributions to the region's wine and agricultural industry.

The partners are now discussing phase two options including complementary culinary facilities, distilling, brewing, and more. The intent is to increase downtown visitation, spending, and vitality by connecting a renewed waterfront with historic residential and retail neighborhoods; and to create new opportunities for small businesses.

**Creating a Regional Town Center.** Port of Kennewick is also finalizing the master plan to redevelop the former Vista Field airport located in the heart of the region's commercial center in Kennewick. The intent is to transform that 103-acre site into a vibrant, pedestrian-focused, regional town center. Redeveloping the former airfield provides an opportunity to encourage significant private-sector investment; and to build a new "town center" while generating positive returns to the regional economy.

The redevelopment plan is community-driven and focused on a pay-as-you-go approach—looking to leverage the port's land with private equity from developers, builders, and investors; creating a special, pedestrian-friendly, centrally-located living, working, and gathering place for citizens and future generations. Indeed, there has been substantial interest from developers, individuals, and businesses wishing to locate at a Vista Field Town Center.

Currently the Vista Field Redevelopment master plan is being refined regarding the street network, and commercial, residential, and public spaces. It is anticipated the final plan will go before both port commissioners and city council for approval by summer 2016, with phase one construction possibly starting as early as 2017.



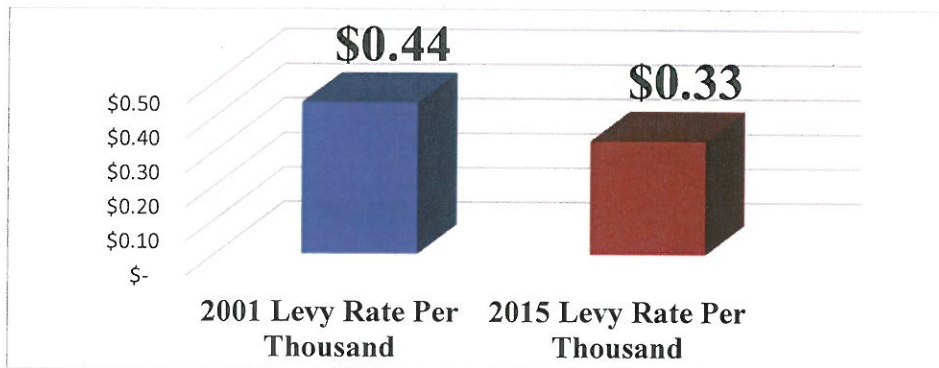
**Richland.** Recognizing that public trails and parks contribute to our community’s livability, the Port of Kennewick partnered with the City of Richland and Benton County to expand trailhead parking to relieve congestion and increase access to the Friends of Badger Mountain’s trail system. Late last year, a 76-stall, paved parking lot was completed; improving safety for the surrounding neighborhood, and providing more and better access to the mountain’s ridgeline trails for citizens and visitors alike.

**West Richland.** The Port and the City of West Richland’s efforts include the redevelopment of 82-acres of Port-owned land. The City annexed the port land into city limits in 2015; a change that allows for the future extension of city utilities. The Port and City are working together to master plan the site, which is envisioned as an industrial hub supporting the region’s rapidly growing wine industry. The City of West Richland is also planning to construct a large-scale wine-effluent treatment facility to accommodate large-volume wine production, expand capacities, and offer support services to the adjacent, internationally-renowned Red Mountain AVA.

The City of West Richland, in partnership with Port of Kennewick, is constructing a bicycle and pedestrian-friendly riverfront trail, parking lot, and new public restroom near the Van Giesen Bridge. The Yakima River Gateway Project will create a riverfront park, preserve public access to the shoreline, and increase recreational use of the Yakima River.

**Challenges & Opportunities.** While the community has prioritized these redevelopment strategies, the Port cannot do them alone. The Port must secure partnerships and leverage funding, and we must remain vigilant to ensure that changing regulations and priorities do not hinder a chance to foster distinctive neighborhoods with a strong sense of place.

**Tax Levy.** Over the years, the Port of Kennewick has worked to minimize the Port’s property tax levy. We strive to keep the Port levy low. Our goal is to be able to offset operational costs and future economic development opportunities with revenue from tenants or developers while keeping tax revenue well below our taxing authority. With those goals in mind, the Port’s levy rate has decreased from \$0.44 in 2001 to \$0.33 in 2015 which is a 25% decrease.



A \$200 thousand house cost \$88 in Port property taxes in 2001; and just \$66 in 2015.

### REQUEST FOR INFORMATION

This annual report is designed to provide citizens, customers, investors, and creditors with a general overview of the Port’s finances and to show accountability of public funds. If you have any questions regarding this annual report, or need additional information, please visit our website at [www.PortofKennewick.org](http://www.PortofKennewick.org) or contact: Chief Financial Officer, 350 Clover Island Drive, Suite 200, Kennewick, WA 99336; Telephone (509) 586-1186; Fax (509) 582-7678.

Port of Kennewick

STATEMENT OF NET POSITION\*  
December 31, 2015

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 10,674,535
Taxes receivable	80,409
Other receivables (net)	16,701
Prepaid expenses	131,636
Current portion of notes and interest receivable	29,196
<b>Total current assets</b>	<b>\$ 10,932,477</b>

**Noncurrent Assets:**

Capital assets

Capital assets not being depreciated:	
Land	12,281,229
Construction in progress	4,633,687
Capital assets being depreciated:	
Improvements to land	7,949,552
Buildings	27,426,034
Equipment	1,087,041
Less: accumulated depreciation	(10,248,165)
Total capital assets (net)	43,129,378
<b>Total noncurrent assets</b>	<b>\$ 43,129,378</b>

**TOTAL ASSETS** \$ 54,061,855

**Deferred Outflows of Resources:**

State Pension	96,955
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**TOTAL DEFERRED OUTFLOWS OF RESOURCES** \$ 96,955

\*The accompanying Notes to Financial Statements are an integral part of these financial statements.

Port of Kennewick

STATEMENT OF NET POSITION\*  
December 31, 2015

**LIABILITIES**

**Current Liabilities:**

Warrants payable	\$ 289,875
Compensated absences	180,555
Retainage payable under construction contracts	45,082
Current portion of unearned revenue	19,988
Lease securities payable	62,435
<b>Total current liabilities</b>	<b>597,935</b>

**Noncurrent Liabilities:**

Net port share of state pension liability	736,764
Other post-employment benefits liability	192,327
<b>Total noncurrent liabilities</b>	<b>929,091</b>

**TOTAL LIABILITIES** \$ 1,527,026

**Deferred Inflow of Resources:**

State Pension	113,582
---------------	---------

**TOTAL DEFERRED INFLOWS OF RESOURCES** \$ 113,582

**NET POSITION**

Net investment in capital assets	42,972,961
Unrestricted	9,545,241

**TOTAL NET POSITION** \$52,518,202

\*The accompanying Notes to Financial Statements are an integral part of these financial statements.

Port of Kennewick

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION\***

For the Year Ended December 31, 2015

**OPERATING REVENUE**

Property lease/rental operations	\$ 875,438
Marina operations	\$ 322,386
<b>Total operating revenues</b>	1,197,824

**OPERATING EXPENSES**

General operations	474,214
Maintenance	404,188
General and administration	870,917
<b>Total before depreciation</b>	1,749,319
Depreciation	1,136,768
<b>Total operating expenses</b>	2,886,087

<b>Operating loss</b>	(1,688,263)
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**NONOPERATING REVENUES (EXPENSES)**

Taxes levied for general purposes	3,669,499
Interest income	35,869
Gain or (Loss) on disposition of assets	(6,679)
Real estate division expenses	(30,265)
Economic development division expenses	(160,291)
Public, election, OPEB, Pension, & governmental relations expenses	(797,510)
<b>Total nonoperating revenues (expenses)</b>	2,710,623

<b>Income before other revenues, expenses, gains and losses</b>	1,022,360
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Capital contributions	200,488
Special item(s)	(14,627)
<b>Increase in net position</b>	1,208,221

Net position - beginning of year	\$ 52,073,914
Changes in accounting treatment (Pension)	\$ (763,933)
Net position - end of year	\$ 52,518,202

\*The accompanying Notes to Financial Statements are an integral part of these financial statements.

Port of Kennewick

STATEMENT OF CASH FLOWS\*  
For the Year Ended December 31, 2015

**CASH FLOWS from OPERATING ACTIVITIES**

Receipts from customers	\$ 1,217,718
Payments to suppliers	\$ (833,381)
Payments to employees	\$ (881,944)
<b>Net cash provided (used) by operating activities</b>	<u>(497,607)</u>

**CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES**

Non-capital property taxes received	\$ 911,127
Non-operating expenses	\$ (918,833)
Special item expenses	\$ (14,627)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(22,333)</u>

**CASH FLOWS from CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital property taxes received	\$ 2,770,448
Payments received on capital debt	\$ 31,667
Purchases of capital assets	\$ (2,674,910)
Capital contributions	\$ 200,488
<b>Net cash provided (used) by capital and related financing activities</b>	<u>327,693</u>

**CASH FLOWS from INVESTING ACTIVITIES**

Interest and dividends on investments	\$ 38,587
Proceeds from contract installments	\$ 25,346
<b>Net cash provided (used) by investing activities</b>	<u>63,933</u>

**Net decrease in cash and cash equivalents** (128,314)

**Balances - beginning of the year** \$ 10,802,849

**Balances - end of the year** \$ 10,674,535

\*The accompanying Notes to Financial Statements are an integral part of these financial statements.

Port of Kennewick

STATEMENT OF CASH FLOWS\*  
For the Year Ended December 31, 2015

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities  
Proprietary Fund\*

Operating loss \$ (1,688,263)

*Adjustments to reconcile operating loss to net cash  
used by operating activities:*

Depreciation expense 1,136,768

Changes in assets and liabilities

Accounts receivable (net) 3,405

Prepayments (38,202)

Customer deposits payable 13,927

Warrants payable 25,023

Compensated absences 47,173

Unearned revenue 2,561

**Net cash used by operating activities** \$ (497,607)

**Noncash Investing, Capital, and Financing Activities:**

The noncash portion of these transactions are as follows:

Other post-employment benefits liability \$ 79,775  
Net pension expense \$(10,543)

\*The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Port of Kennewick

### NOTES TO FINANCIAL STATEMENT For the Year Ended December 31, 2015

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

The Port of Kennewick (the Port) was formed by citizen vote March 6, 1915 and incorporated on April 12, 1915. The Port operates under the laws of the State of Washington applicable to public Port districts. The Port is governed by an elected three member Board of Commissioners.

The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through operating lease revenues, property sales, and/or property taxes. As required by GAAP, management has considered all potential component units in defining the reporting entity. The Port has no component units.

#### B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included in the statement of net position (or balance sheet). The 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 the 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.

The Port distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers primarily for services provided by and for leasing of Port property for the Marine Division and the Property Management Division.

Operating expenses for the Port include expenses associated with the operations of the Marine Division and Property Management Division for the services provided by and for leasing of Port property for the Marine Division and the Property Management Division. Operating expenses also include the cost of sales and services, general and administrative (Corporate Division) expenses as defined below, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Port uses a cost allocation methodology and plan to allocate the Port's staffing and indirect costs to the Port's various properties, operations, capital (except indirect cost which is not allocated to capital assets) and nonoperating divisions. The Corporate Division allocates its general and administrative expenses according to the direct level of services they provide to the divisions; however, a majority of their function is to support all operations, nonoperating and capital. The Port's cost allocation methodology does not allocate all corporate costs to the various divisions; however, it does apply an indirect cost allocation based on the direct cost associated with the division, nonoperating items, or other special items. The Corporate Division includes, but is not limited to Accounting, Finance & Auditing, Board of Directors, Legal, and Management and Administration.

Nonoperating revenues are defined as revenues that do not support the Port's Marine and Property Management Divisions. Nonoperating revenues include, but are not limited to property tax revenue (Ad Valorem Taxes), gain on sale of assets, capital contributions such as grants, interest income, public revenues, and other miscellaneous income not associated with the Port's Marine and Property Management Divisions.

Nonoperating costs are expenses incurred by activities not related to the Marine and Property Management Divisions. Furthermore, some of the nonoperating costs are nonrecurring in nature and do not support the current operations of the Port; however, they are useful for planning and decision making such as market and feasibility studies. Nonoperating costs include, but are not limited to, interest expense; governmental relations consultant; grant seeking and writing; public costs such as responding to public records requests and public awareness marketing campaigns; noncapital studies that do not currently impact or improve the Marine, and Property Management Divisions; other post-employment benefit and GASB 68 Pension expense (which are defined as an accounting liability by the Governmental Accounting Standards Board and are not a legal liability that the Port is required to contribute in the future) and other costs that do not currently impact or improve the Marine, and Property Management Divisions and/or costs that do not meet the capitalization requirements per Governmental Accounting Standards. The definition of operating cost is for accounting purposes only (not to be used for legal definitions and includes but is not limited to bond and debt issuance).

The Economic Development & Planning Division plans and delivers projects as well as provides technical and contracting services in support of the business plans and infrastructure needs of the Port. This division supports all the Port capital assets to be acquired or constructed. As defined by Governmental Accounting Standards, not all Economic Development & Planning Division costs can be capitalized such as indirect costs (e.g. paper supplies, utilities associated with the Port Office Building, and miscellaneous office supplies). The above mentioned costs are located in the nonoperating expenses for this division and all costs, associated directly and properly identified as capital, are reported as capital costs and are located in the capital budget. Capital costs are necessary expenditures and are directly associated with putting a capital asset into place, which includes, but is



not limited to planning, direct staffing costs, site readiness costs, construction, and/or acquisition costs.

The Real Estate Division deals with the process of selling and purchasing property in support of the business plans and infrastructure needs of the Port. The Real Estate Division also markets Port properties for sale, and provides technical and contracting services in support of the business plans and infrastructure needs of the Port. The associated staffing and indirect costs related to the Real Estate Division are located within the expenses of this division as nonoperating and all costs, associated directly and properly identified as capital, are reported as capital costs and are located in the capital budget.

C. Use of Estimates

The preparation of the Port's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Accounting and Reporting Change

In 2015, the Port implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions. An Amendment of GASB Statement No. 27 (Issued 06/12). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The implementation required restatement of net position of approximately \$764 thousand.

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

a. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2015, the Benton County Treasurer held \$10,659,535 in short-term residual investments of surplus cash as discussed in Note 5, *Deposits and Investments* plus \$15,000 in a petty cash accounts held in Washington State approved depository for a total of cash and cash equivalents of \$10,674,535. These amounts are classified on the statement of net position as cash and cash equivalents.

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

b. Short-Term Investments – See Note 5, *Deposits and Investments*.

c. Receivables

Taxes receivable consist of property taxes and related interest and penalties. (See Note 13, *Property Tax*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer and tenant accounts receivable consist of amounts owed from private individuals or organizations for goods, services, or leases of property including amounts owed for which billings have not been prepared. The Port classifies prepaid rents from tenants as unearned revenue in the current liability section of the financial statements.

Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered and from property sales on contract.

d. Inventories

The Port maintains a small inventory of office supplies and maintenance parts. Parts and supplies are expensed as purchased and no cost of inventoried goods for these items is maintained.

e. Capital Assets and Depreciation - See Note 2, *Capital Assets and Depreciation*.

f. Other Assets, Debts, or Liabilities

Lease securities payable are lease securities or deposits held under the terms of certain lease agreements. The Port requires or allows its customers or tenants to provide security to satisfy contractual obligations. The Port classifies these amounts as lease securities and they are included in the current liability in the Statement of Net Position. The Port is allowed to draw from these lease securities in certain events as defined in these agreements, such as defaults or delinquencies in rent payment. The balance is determined by the lease terms and is recalculated according to the provisions of the agreements.

Unearned revenue includes amounts recognized as receivables (assets) but not revenues because the revenue recognition criteria have not been met.

Retainage payable under construction contracts are retainage amounts held and required to be paid upon full legal performance of the contractor. The Port reports the amounts owed to contractors under retainage payable on the Statement of Net Position as a current liability.

Preliminary surveys or planning costs include preliminary costs incurred for proposed construction projects and are included in the construction in progress within the Port's capital assets. If the asset is successfully constructed and placed into service, the related costs become part of the cost of the asset; if the project is abandoned, related costs are charged as a nonoperating or operating expense based on its proper operating or nonoperating definition previously described.

g. Deferred Outflows/Inflows of Resources

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Port reports a separate section for deferred inflows and outflows of resource. This represents an increase or decrease in net position that applies to future periods. Implementing GASB 68 for the Port's portion of the State's pension created \$96,955 deferred outflow and \$113,581 deferred inflow of resources as of December 31, 2015.

h. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Port accrues a liability for compensated absences (e.g. paid time off). The Port records unpaid leave for compensated absences as an expense and a liability when incurred.

Payable upon separation of services from the Port, PTO (paid time off) may be accumulated up to a maximum of 30 days at 100% of an employee's current salary and up to a maximum of 90 days at 50% of an employee's current salary. Furthermore, employees are allowed to cash out up to 20 days per year of their unused PTO balances.

i. Long-Term Debt – See Note 8, *Long-Term Debt*.

**NOTE 2 – CAPITAL ASSETS AND DEPRECIATION**

- A. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. (Obligations under capital leases, if any, are disclosed in Note 7, *Leases* and Note 8, *Long-Term Debt*).

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known) or estimated market value for donated assets. Donations by developers (and customers) are recorded at the contract price or donor cost or appraised value.

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 purpose for which the assets were acquired, and has included such assets within the applicable account.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less any salvage value, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the Port's capital accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income. An allowance for funds used during construction is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.

The Port's policy is to capitalize all asset additions greater than \$1,000 with an estimated life of more than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 1 to 50 years.

- B. As of December 31, 2015, the Port did not have any impaired capital assets except the Port Commission voted in 2013 to discontinue an operating capital assets as disclosed in Note 6, *Extraordinary and/or Special Items*
- C. Capital asset activity for the year ended December 31, 2015 was as follows:

	<b>Beginning Balance 1/1/2015</b>	<b>Deletions</b>	<b>Additions</b>	<b>Ending Balance 12/31/2015</b>
<b>Capital assets, not depreciated:</b>				
Land	\$ 12,281,229	\$ -	-	\$ 12,281,229
Construction in progress	2,140,692	27,842	2,520,837	4,633,687
<b>Total capital assets, not depreciated</b>	<b>14,421,921</b>	<b>27,842</b>	<b>2,520,837</b>	<b>16,914,916</b>
<b>Capital assets, depreciated:</b>				
Buildings	27,315,783	-	110,251	27,426,034
Improvements other than buildings	7,944,655	-	4,897	7,949,552
Machinery and equipment	1,037,111	98,983	148,913	1,087,041
<b>Total capital assets, depreciated</b>	<b>36,297,549</b>	<b>98,983</b>	<b>264,061</b>	<b>36,462,627</b>
<b>Less accumulated depreciation for:</b>				
Buildings	5,824,051	-	636,074	6,460,125
Improvements other than buildings	2,752,822	-	440,441	3,193,263
Machinery and equipment	626,827	92,304	60,254	594,777
<b>Total accumulated depreciation</b>	<b>9,203,700</b>	<b>92,304</b>	<b>1,136,769</b>	<b>10,248,165</b>
<b>Total capital assets depreciated (net)</b>	<b>\$ 41,515,770</b>	<b>\$ 34,521</b>	<b>\$ 1,648,129</b>	<b>\$ 43,129,378</b>

### **NOTE 3 – CONSTRUCTION COMMITMENTS**

The Port had one active construction project, Clover Island Boat Parking & Restroom, as of December 31, 2015. The Port has several projects in planning stages where commitments are under contract with various firms and jurisdictional partners (e.g. City of Kennewick and West Richland).

At year-end, the Port's commitments on contract were as follows:

Project	Spent to Date	Remaining Commitment
Vista Field Redevelopment	\$ 121,917	\$ 128,683
Vista Field Development Facility Building Improvements	\$ 50,930	\$ 699,070
Village at Island Harbor	\$ 4,659	\$ 54,542
Columbia Gardens Redevelopment & 211 E Columbia Drive Building	\$ 182,183	\$ 1,117,817
West Richland (Former Raceway) Interlocal	\$ 9,600	\$ 43,150
Clover Island Boat Parking & Restroom (does not include	\$ 791,230	\$ 345,566
<b>Total</b>	<b>\$ 1,160,519</b>	<b>\$ 2,388,828</b>

Of the committed balance of approximately \$2.4 million, the Port has sufficient funding available to cover all cost as disclosed in Note 5, *Deposits and Investments*.

#### **NOTE 4 – CONTINGENCIES, LITIGATION, STEWARDSHIP, AND ACCOUNTABILITY**

There have been no material violations of financial, accountability, legal or contractual compliance requirements.

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

As discussed in Note 8, *Long-Term Debt*, the Port has no long-term debts.

As discussed in Note 3, *Construction Commitments*, the Port has committed to several projects that are under contract. They are fully funded by the Port's revenues, and cash and investments.

The Port participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management is not aware of any disallowances; however, if any, these would be immaterial.

In April, 2013, the Port Commission voted to close Vista Field Airport effective December 31, 2013. As of the date of this Financial Report, the Port is not aware of any further contingencies related to the closure of Vista Field Airport. In 2014, the Port received a letter from an adjacent property/business owner who had a month-to-month, through-the-fence access agreement with the Port for Vista Field Airport. This property/business owner requested payment of over \$1 million dollars for damages the former tenant claims were caused by the closure of Vista Field Airport. Based upon review by the Port's legal counsel and insurance carrier, this request for payment has no merit and is unlikely to prevail if a lawsuit is filed. The through-the-fence agreement was on a month-to-month basis and the property owner built on the adjacent property at his own risk. The Port has not heard from the former tenant since that 2014 letter.

The Port has entered into an interlocal agreement with the City of Kennewick to perform a joint development project in order to ensure the success of the Columbia Gardens Wine Village Redevelopment project. The Port agreed to spend between \$1 million and \$1.3 million on Phase 1 of the Columbia Gardens project while the City agrees to spend up to \$1.3 million on specific agreed-upon City infrastructure improvements. This joint project would construct improvements at 421 Columbia Drive for wine-related activities, including production, storage, distribution, and sales (including tasting room) and other compatible uses; effluent treatment project for the planned development; extend the City's nature trail from its current start point in "The Willows" to the eastern boundary of the project area; provide parking and pad sites, signage, and install high quality streetscape on the north side of East Columbia Drive.

The Port has entered into a long-term lease agreement with a tenant for the Port to perform capital improvements to the 415 North Quay Street Vista Field Development Facility. The Port agreed to perform improvements to the premises which will substantially increase the value and lease-ability of the facility. The Port agreed to perform improvements that do not exceed \$750,000. The tenant will contribute at least \$40,000 toward their own tenant improvements. In making these improvements, the Port retained a high family-wage paying technology tenant who was considering moving out of Washington State, and improved the asset value of the Port's building and future marketability of the property.

Other than the instance described above, the Port Management believes that such disallowances of other grants or the tenant leases, if any, will be immaterial.

#### **NOTE 5 – DEPOSITS AND INVESTMENTS**

##### **A. Deposits**

The Benton County Treasurer is the *ex officio* treasurer for the Port of Kennewick and holds all accounts of the Port in the Port's name within the Benton County Treasurer's accounts. The Port directs the County Treasurer to invest Port financial resources which the Port has determined are not needed to meet the current financial obligations of the district.

The Benton County Treasurer has adopted a formal deposit and investment policy pursuant to RCW 36.29.020. The Benton County Finance Committee consists of the Benton County Treasurer as Chair, the Benton County Auditor as Secretary, and the Chair of the Board of Benton County Commissioners. All deposits and investments are subject to written policies and procedures adopted by the Benton County Finance Committee. The committee meets not less than quarterly to review the deposit and investment Portfolio and performance. In July 2010, the Deposit and Investment Policy received a Certification of Excellence from the Association of Public Treasurers of the United States and Canada.

Due to the current economic environment, banks are not taking public funds for investing in certificates of deposit. Monies that normally would have been invested as certificates of deposit are currently being sent to the State Pool or invested through the Benton County Treasurer's Investment Pool (TIP). The philosophy in developing a TIP was to create a locally managed diversified investment option that would take advantage of the economies of scale, simplify administration, and achieve a potentially higher yield than other available programs. The Benton County TIP, administered by the Benton County Treasurer's Office, is an external investment pool.

Deposits are classified on the Statement of Net Position as cash and cash equivalents. Investments with maturities of more than three months are classified on the Statement of Net Positions as investments. The Port of Kennewick had no investments and no insured or collateralized investments with maturities of more than three months as of December 31, 2015 since all of the Port's deposits are within the Benton County TIP and can be cashed out in their entirety daily or with a ten (10) day notice if over \$10 million as per the Investment Service Agreement.

Custodian Risk. Custodial risk for deposits and investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its deposits and investment or collateral securities that are in the possession of an outside party. The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institutions collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Benton County Treasurers policy dictates that all deposits and investment instruments other than nonnegotiable certificates of deposit and monies placed with the Washington State Local Government Investment Pool are transacted on the delivery versus payment basis. This means that payment is made simultaneously with the receipt of the security. Securities are held in safekeeping in the county's name by an institution (custodian) under contract with the county Treasurer. Currently, safekeeping is with Bank of New York Mellon.

Port of Kennewick deposits by type at December 31, 2015 are as follows:

<b>Deposit</b>	<b>Maturity</b>	<b>Fair Value of Port of Kennewick's Own Investments</b>	<b>Fair Value of the Port of Kennewick Deposits</b>	<b>Total</b>
Benton County Investment Pool	Daily	\$0.00	\$10,659,535	\$10,659,535
Gesa petty cash	Daily	\$0.00	\$15,000	\$15,000
<b>Total</b>		<b>\$0.00</b>	<b>\$10,674,535</b>	<b>\$10,674,535</b>

The Gesa \$15,000 petty cash account is highly liquid and is held at Washington State approved depositories.

External Investment Pool. The Benton County TIP is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the Benton County Finance Committee. In 2013, the Board of Commissioners, Finance Committee, and County Treasurer authorized the expansion of the TIP and with that expansion, an alternative investment vehicle is available not only to the county, but allows for participation by other legally separate entities such as special districts and public agencies, for which the county is *ex officio* treasurer. Participation in the pool by districts and agencies is voluntary, with a signed Investment Service Agreement submitted to the county treasurer. The county and districts are able to take advantage of higher yielding investment opportunities by combining purchasing power while maintaining objectives of safety, liquidity, and yield. The TIP has grown from four participants with 34 funds to ten participants encompassing 58 funds in 2014. It is expected that the growth of the TIP will continue.

B. Investments

Investments with maturities of more than three months are classified on the Statement of Net Position as investments. The Port had no investments and no insured or collateralized investments with maturities of more than three months as of December 31, 2015 since all of the Port's deposits are within the Benton County TIP and can be cashed out in their entirety daily or with a ten (10) day notice if over \$10 million as per the Investment Service Agreement.

**NOTE 6 – EXTRAORDINARY, SPECIAL ITEMS, AND GOVERNMENT COMBINATIONS**

The Port had one significant special item in 2015 subject to management's control where there was disposal of operating assets and the decommissioning activities from that disposal are ongoing.

In 2013, the Port conducted a Planning, Environmental and Economic Analysis with a public-input process on the future of the Vista Field airport and it was determined in 2013 by the Port Commission the highest and best use for the Port and community as a whole was to close the Vista Field airport and redevelop the approximate 103-acre property. The Vista Field airport was estimated to average an annual loss of \$390,144 per year, with very little economic benefit to the area and just over 4,000 annual operations (approximately 11 flights, counting both landing and take-off as a separate operation, each day). At 5:00 p.m. on December 31, 2013 the Port closed Vista Field airport for the purpose of enhancing the area for a long-term redevelopment project that will benefit the community as a whole, while cutting Port losses, and potentially increasing revenues through future land sales and/or property rental operations. As a result of this closure, the Port recognizes ongoing decommissioning cost of Vista Field airport as required by Governmental Accounting Standards Statement No. 69. The Port's ongoing decommissioning and closure costs will continue as planning permits (e.g. demolition of buildings, runway, tank removals, and a purchase of a hanger as described in Note 4, *Contingencies and Litigations*). The ongoing decommissioning activities included hangar and tank demolition, asbestos assessment, runway closure markings, and signage removal, for a total cost of \$14,627 January 1, 2015 through December 31, 2015.

**NOTE 7 – LEASES**

As of December 31, 2015, the Port had no material noncancellable contracts where the Port leases property as a lessee. The Port has no major customers, representing individually, more than 10% of total operating revenues.

The Port, as a lessor, enters into several operating leases with tenants for the use of properties at various locations, including Marine Division and Property Management Division land, facilities, and equipment rentals with minimum annual guarantees, securities, or deposits under lease terms of 1 to 50 years. In addition, some properties are rented on a month-to-month basis. Port procedure is to negotiate all leases at fair market value at the best of our abilities considering market conditions, economic factors, property condition and location, as well as other factors that may impact negotiating lease prices.

The Port currently has over 17 noncancellable lease arrangements ranging in monthly payments between \$200 and \$12,500 with either fixed, 1% to 3%, or Consumer Price Index rent escalation clauses. Eight of the noncancellable leases have contract terms ranging from one to six option(s) of 2 to 15 year lease renewal option(s). Two leases contain provisions that allow the tenant the option to purchase their leased property at fair market value at the end of the lease expiration.



The Port has calculated the minimum future lease rental income on noncancellable operating leases through their lease terms and with the optional extensions. On leases with optional extensions the Port included the extension periods if it is a land lease with significant improvements (e.g. building) or the Port has reason to believe the tenant will renew (e.g. long history with the Port).

The Port's minimum future lease rental income on noncancellable operating lease terms remaining in excess of one year are as follows:

<i><b>Years Ending December 31</b></i>	
2016	\$ 563,512
2017	\$ 463,357
2018	\$ 235,847
2019	\$ 229,186
2020	\$ 191,189
Thereafter	\$ 6,138,515
<b>TOTAL</b>	<b>\$ 7,821,606</b>

The Port's leased properties involved are in part used by internal Port operations, or in part of a building with land, and/or for land held for sale. It is not reasonably determinable to segregate the value of assets associated with producing minimum rental income from the value of the assets associated with an entire facility.

#### **NOTE 8 – LONG-TERM DEBT**

##### A. Long-Term Debt, Refunded Debt, Conduit Debt, and Special Assessments

As of December 31, 2015, the Port of Kennewick did not have any general obligation or revenue bonds, refunded debt, conduit debt, or special assessments.

##### B. Notes Payable

As of December 31, 2015, the Port of Kennewick had no debt or notes payable.

#### **NOTE 9 – OTHER DISCLOSURES**

Intergovernmental programs where the Port entered into three interlocal agreements with jurisdictional partners is discussed in Note 4, *Contingencies and Litigation*.

The Port had several contractual obligations which are discussed in Note 4, *Contingencies and Litigation*.

The Port has several real estate holdings deemed no longer needed for Port purposes and available for sale in accordance with the Port's Comprehensive Scheme of Development as follows:

- Spaulding Business Park land 1.29 acres
- West Richland land 2 acres
- Southridge land 8.5 acres
- Hedges land 37 acres
- Oak Street land 12 acres

## **NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS**

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The requirements of this statement are effective in three phases. The Port of Kennewick is a phase 3 government, and was required to adopt this statement for fiscal periods beginning after December 15, 2008. Legally, the Port does not have a contractual obligation or a policy to maintain and provide its employees with continued medical insurance coverage after termination or retirement. The Public Employees Benefits Board (PEBB) plan document offers a subsidized retirement coverage to its plan participants and the Port can terminate medical insurance with no future obligation or liability to PEBB or its retirees. In order to be in compliance with GASB Statement No. 45 that requires governments to book a liability, an expense, and provide specific note disclosures based on an estimated and potential future cost to cover future retired employees medical expenses, the Port adopted and implemented this statement in 2013. Past Port of Kennewick financial statements did not reflect the other post-employment benefits (OPEB) as it was not deemed material to the financial statements.

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.”

### **A. Plan Description**

Other Post-Employment Benefits (OPEB) are benefits to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, dental, life, vision, disability, and long-term care insurance. The Public Employees Benefits Board (PEBB), the Port’s substantive plan carrier, offers retirees access to all these benefits through PEBB. However, the Port provides only monetary assistance, or subsidies, for medical, prescription drug, life, and vision insurance. 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.

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 or it may be downloaded from the Office of the State Actuary website at <http://osa.leg.wa.gov>.

## B. 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 2007, these subsidies were not projected and accounted for under the 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.

## C. 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 2007, 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 not accounted for under the pay-as-you-go method.

GASB Statements No. 43 and No. 45 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; and
- 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. The Port's cost-sharing policy on the medical premiums is to pay 100% of the PEBB medical plan for employees as described in A. Plan Description above and 100% of the premiums up to 90 days after termination or retirement.

D. Annual OPEB Cost and Net OPEB Obligation

The Port’s annual OPEB cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 30 years as of January 1, 2009. 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 of \$192,327 is included as a noncurrent liability in the Statement of Net Position.

<b>Determination of Annual Required Contribution:</b>	<b>Ending 12/31/15</b>	<b>Ending 12/31/14</b>
Normal Cost at Year End	\$64,671	\$55,801
Amortization of Unfunded Actuarial Accrued Liability	19,564	13,037
Annual Required Contribution	\$84,234	\$68,838
<b>Determination of Annual OPEB Cost:</b>		
Annual Required Contribution	\$84,234	\$68,838
Net OPEB Obligation Interest	4,902	1,855
Net OPEB Obligation Amortization	(7,087)	(2,682)
Annual OPEB COST	\$82,049	\$68,011
<b>Determination of Net OPEB Obligation:</b>		
Starting Net OPEB Obligation	\$112,552	\$46,372
Annual OPEB Cost	82,049	68,011
Contributions	2,274	1,832
Net OPEB Obligation	\$192,327	\$112,552

The Port’s OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2015 is as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Contributions as a Percentage of OPEB Cost</b>	<b>Net OPEB Obligation</b>
12/31/2015	\$82,049	2.77%	\$192,327
12/31/2014	\$68,011	2.69%	\$112,551
12/31/2013	\$48,120	3.63%	\$46,372

E. Funded Status, Funding Progress and Reserves

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 from the trust. If the Port left the PEBB program, the Port would not be able to retrieve the money out of the trust. As of December 31, 2015, the Port does not pre-fund post-retirement medical insurance subsidies. Since the PEBB plan is paid for on a pay-as-you-go basis and was 0% funded, there are no assets to invest. However, currently the Port has sufficient cash and cash equivalents to cover the entire liabilities (if any costs are incurred in the future). If the Port no longer uses PEBB for their medical insurance coverage, under the current Port policy, the Port is not liable for any future cost to retired employees.

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 health care 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 schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that will show whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial liability for benefits.

Actuarial valuations of an ongoing plan 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, investment rate of return, payroll growth rate, and health care 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.

F. Actuarial Methods and Assumptions

The Port used the alternative measurement method permitted under GASB Statement No. 45. Data (e.g., age range, years of service, active age average, etc.) is compiled into the Office of State Actuary GASB No. 45 reporting tool for all active and inactive members to determine the Actuarial Accrued Liability (AAL) and normal cost. The Office of the State Actuary report involves calculations that require assumptions about future economic and demographic events. Consistent with GASB reporting requirements, the Office of the State Actuary assumed a pay-as-you-go funding policy when selecting the assumed rate of investment return of 4%. General and salary inflation are the same as those used in the June 30, 2015 Actuarial Valuation Report (AVR) issued by the Office of the State Actuary. Cost inflation begins at approximately 8% in 2014 and decreases to an ultimate rate of about 5% in 2093. Participation percentage, percentage of spouses' coverage, and Medicare coverage was determined by the Office of the State Actuary. The average cost of medical plans providing coverage before Medicare eligibility decreased by 7.2%; the average cost for Medicare medical plans increased by 4.3%. Actual medical cost inflation since the last valuation date was lower than the assumed rate of approximately 14.6%. Covered payroll is assumed to grow at 3.75% per year.

Demographic assumptions are the same as those used in the June 30, 2014 AVR, which were developed from the 2007-2012 Experience Study performed by the Office of the State Actuary. The Office of Financial Management is responsible for the selection of the actuarial cost method, asset valuation method and funding policy for amortizing the Unfunded Actuarial Accrued Liability (UAAL).

The medical trend, claim cost, aging factors, and analysis of "Cadillac" plans under the Patient Protection and Affordable Care Act were determined by Milliman and used by the Office of the State Actuary for the OPEB actuarial valuation report dated June 30, 2014. The results were based on grouped data with four active groupings and four inactive groupings. The Office of the State Actuary prepared a sensitivity analysis assuming a 0.5% higher and lower investment rate of return for the impact of the Patient Protection and Affordable Care Act (PPACA) excise tax. The excise tax, which does not go into effect until the year 2018, represents approximately 1.1% of all liabilities.

The Health Care Authority and the Department of Retirement Systems provided the member data used in the Office of the State Actuary report. The census date is reported as of June 30, 2014, and was projected forward to match the open enrollment medical plan choices as of January 1, 2015. A single retirement age of 62.4 was assumed for all active members to determine the 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).

The Projected Unit Credit (PUC) is the actuarial funding method chosen for the Office of the State Actuary report to determine the AAL. The UAAL is amortized over a closed 30-year period as a level percent of payroll. There are no asset valuation methods since there are no assets invested in an irrevocable, dedicated, and projected trust. The AAL and the Net OPEB Obligations (NOO) are amortized as a percentage of payroll over an open 30-year period. These methods, assumptions, and calculations are individually and collectively reasonable for the purposes of this valuation.

**NOTE 11 – 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:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$4,153,949
Pension assets	\$3,417,185
Deferred outflows of resources	\$96,955
Deferred inflows of resources	\$113,582
Pension expense/expenditures	\$29,031

**State Sponsored Pension Plans**

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

## **Public Employees' Retirement System (PERS)**

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty 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%. 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%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

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

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

The Port's actual contributions to the plan were \$39,197 for the year ended December 31, 2015.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% 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%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

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

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

The Port's actual contributions to the plan were \$50,344 for the year ended December 31, 2015.

### **Actuarial Assumptions**

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



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

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

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

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

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

## **Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% 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% 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% 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% 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%
	<b>100%</b>	

## Sensitivity of NPL

The table below presents the Port’s proportionate share\* of the net pension liability calculated using the discount rate of 7.5%, 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%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 476,695	\$391,535	\$318,305
PERS 2/3	\$1,009,467	\$345,229	\$(163,353)

## 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, Port reported a total pension liability of \$736,764 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$391,535
PERS 2/3	\$345,229

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	.007271%	.007485%	.000214%
PERS 2/3	.009361%	.009662%	.000301%

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	\$13,585
PERS 2/3	\$15,446
TOTAL	\$29,031

### Deferred Outflows of Resources and Deferred Inflows of Resources

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

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$21,422
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$21,689	\$0
<b>TOTAL</b>	<b>\$21,689</b>	<b>\$21,422</b>

<b>PERS 2 &amp; 3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$36,698	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$92,160
Changes of assumptions	\$556	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$9,685	\$0
Contributions subsequent to the measurement date	\$28,327	\$0
<b>TOTAL</b>	<b>\$75,266</b>	<b>\$92,160</b>

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 if the net amount is under \$1,000. In the year ending December 31, 2015 plans for PERS 1, PERS 2 and PERS 3 other amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2016	\$ (8,302)
2017	\$ (8,302)
2018	\$ (8,302)
2019	\$ 3,484
2020	\$ -
Thereafter	\$ -

Year ended December 31:	PERS 2 & 3
2016	\$ (22,188)
2017	\$ (22,188)
2018	\$ (22,188)
2019	\$ 21,343
2020	\$ -
Thereafter	\$ -

**NOTE 12 – PLEDGES AND SALES OF FUTURE REVENUES**

In August of 2009, the Port of Kennewick entered into an interlocal agreement with the City of Kennewick establishing a Local Revitalization Financing Agreement as allowed by the State of Washington. The Port pledges the increased property taxes due to new construction stimulated by the City of Kennewick’s bond financing in an amount not to exceed \$14,000 per year for a period of 25 years. The Port reports the revenues and expenses within the nonoperations on the Statement of Revenues, Expenses and Changes in Net Position.

**NOTE 13 – PROPERTY TAX**

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

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

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

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

The Port's regular tax levy for 2015 was \$0.33 per \$1,000 on an assessed valuation of \$10.9 billion for a total regular tax levy of just over \$3.6 million. In 2014, the regular tax levy was just under \$3.6 million.

The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate.

#### **NOTE 14 – RISK MANAGEMENT**

Port of Kennewick is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2015, there are 210 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive, and collision, equipment breakdown and crime protection; and liability, including general, automobile and wrongful acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions that is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which has a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,140,107.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of pumps and motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of pumps and motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the pool for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ended December 31, 2015, were \$627,702.

The Port of Kennewick had no material claims in 2015 and had no material claims paid out in 2015.

Port of Kennewick has chosen to be self-insured for unemployment insurance purposes. The Port had no claims during 2015 and no unemployment claims are outstanding as of December 31, 2015. The Port has sufficient unrestricted cash as disclosed in Note 5, *Deposits and Investments* to pay any future claims if incurred.

#### **NOTE 15 – SUBSEQUENT EVENTS**

At this time there is no material litigation. There are no other known actual liabilities or litigation other than disclosed in Note 4, *Contingencies and Litigation*.

Port of Kennewick

MCAG No. 1699

REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POST-EMPLOYMENT BENEFITS  
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funding Ratio	Annual Covered Payroll	UAAL As Percent of Covered Payroll
6/30/2015	12/31/2015	\$0	\$338,293	\$338,293	0.00%	\$939,903	35.99%
6/30/2014	12/31/2014	\$0	\$225,444	\$225,444	0.00%	\$1,004,500	22.44%
6/30/2013	12/31/2013	\$0	\$223,577	\$223,577	0.00%	\$903,183	24.75%



**Port of Kennewick**

**MCAG No. 1699**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PORT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY**

**As of June 30, 2015**

**PERS 1**

		<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.0074850%
Employer's proportionate share of the net pension liability	\$	391,535
TOTAL	\$	391,535
Employer's covered payroll	\$	0
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	0%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%

**PERS 2 & 3**

		<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.0096620%
Employer's proportionate share of the net pension liability	\$	345,229
TOTAL	\$	345,229
Employer's covered payroll	\$	892,400
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	38.69%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%

**Port of Kennewick**

**MCAG No. 1699**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PORT'S CONTRIBUTIONS**

**As of December 31, 2015**

**PERS 1**

	<u>2015</u>
Statutorily or contractually required contributions	\$39,197
Contributions in relation to statutorily or contractually required contributions	<u>\$39,197</u>
Contribution deficiency (excess)	\$ -
Covered Employer Payroll	\$ -
Contributions as % of Covered Payroll	0%

**PERS 2 & 3**

	<u>2015</u>
Statutorily or contractually required contributions	\$50,344
Contributions in relation to statutorily or contractually required contributions	<u>\$(50,344)</u>
Contribution deficiency (excess)	\$ -
Covered Employer Payroll	\$892,400
Contributions as % of Covered Payroll	5.64%



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

Board of Commissioners  
Port of Kennewick  
Kennewick, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Port of Kennewick, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Port of Kennewick's basic financial statements, and have issued our report thereon dated August 5, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Port of Kennewick’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Yakima, Washington  
August 5, 2016

Port of Kennewick

MCAG No. 1699

Schedule 01  
Revenues and Expense\*

For the Year Ended December 31, 2015

<b>Account Code</b>	<b>Account Title</b>	<b>Actual Amount</b>
3629000	Marina User Charges	\$ 322,386
3740270	Capital Contributions	\$ 200,488
3624000	Property Leases/Rental Revenues	\$ 875,438
3111000	Ad Valorem Tax (Property Tax)	\$ 3,669,499
3699200	Nonoperating Revenues	\$ 35,869
3951000	Proceeds from Sale of Capital Assets or (Losses)	\$ (6,679)
5981010	Other Expenses Salary & Benefits	\$ 929,117
5981030	Other Expenses Supplies	\$ 772,497
5981040	Other Expenses Services	\$ 47,705
5014600	Depreciation	\$ 1,136,768
5985000	Nonoperating Expenses	\$ 988,066
3695000	Special Item	\$ 14,627

\*The accompanying Notes to the Financial Statements are an integral part of this Schedule.

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 09  
Schedule of Liabilities\***

**For the Year Ended December 31, 2015**

Type	ID No.	Description	Date of Original Issue	Date of Maturity	Beginning Balance January 1	Additions	Deletions	Ending Outstanding Balance December 31
GO	259.12	Compensated Absences	N/A	N/A	\$ 133,381	\$ 47,174	\$ -	\$ 180,555
GO	264.30	PERS/Pension Related	Jan-15	N/A	-	\$736,764	\$ -	\$ 736,764
GO	263.40	OPEB/Pension Related	Jan-13	N/A	\$ 112,552	\$ 79,775	\$ -	\$ 192,327
<b>Total Liabilities</b>				<b>\$ -</b>	<b>\$ 245,933</b>	<b>\$ 863,713</b>	<b>\$ -</b>	<b>\$ 1,109,646</b>

\*The accompanying Notes to the Financial Statements are an integral part of this Schedule.

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 15**

**Schedule of State Financial Assistance and Notes to the Schedule of  
State Financial Assistance \***

**For the Year Ended December 31, 2015**

Grantor / Program Title	Identification Number	Current Year Expenditures
Washington State Recreation Conservation Office Grant / Boating Facilities Program	N/A	\$200,488

**\*NOTE 1 – BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the Port's financial statement. The Port uses the full-accrual basis of accounting.

**\*NOTE 2 – PROGRAM COSTS**

The amounts shown as current year expenditures represent only the state grant portion of the project cost. The entire program cost, including the Port's portion, are more than shown.

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 16**

**Schedule of Federal Awards and Notes to the Schedule of  
Federal Awards \***

**For the Year Ended December 31, 2015**

Grantor/Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Current Year Direct Expenditures	Footnote Ref
	N/A	N/A	\$0	N/A

**\*NOTE 1 – BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the Port's financial statement. The Port uses the full-accrual basis of accounting.

**\*NOTE 2 – PROGRAM COSTS**

The amounts shown as current year expenditures represent only the state grant portion of the project cost. The entire program cost, including the Port's portion, are more than shown.



**Port of Kennewick**

**MCAG No. 1699**

**Schedule 19  
Labor Relations Consultant(s)\***

**For the Year Ended December 31, 2015**

The Port of Kennewick has not engaged any labor relations consultants.

\*The accompanying Notes to the Financial Statements are an integral part of this Schedule.

