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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, 2013, and have issued our report thereon dated February 26, 2015. 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.

No new accounting policies were adopted and the application of existing policies was not changed during 2013.

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. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the useful lives of depreciable assets is based on management's estimate of the remaining useful life 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.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

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

Difficulties encountered in performing the audit

The completion of our audit was delayed due to the first time implementation of the cost allocation methodology and corrections that were made to the cash flows statement which were primarily related to the one-time presentation of special items.

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

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 attached management representation letter dated February 26, 2015.

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.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

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

CliftonLarsonAllen LLP

Yakima, Washington
February 26, 2015

PORT OF KENNEWICK

BENTON COUNTY, WASHINGTON

1699
MCAG No.

ANNUAL FINANCIAL REPORT

Submitted pursuant to RCW 43.09.230

to the

STATE AUDITOR'S OFFICE

For the Fiscal Year Ended December 31, 2013

Certified correct this twenty-ninth day of May 2014 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, 2013

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PORT OF KENNEWICK

ANNUAL FINANCIAL REPORT

For the Year Ending December 31, 2013

2013 COMMISSIONERS

Skip Novakovich	President
Don Barnes	Vice President
Gene Wagner	Secretary

2013 PORT OFFICERS/DIRECTORS

Tim Arntzen	Chief Executive Officer
Tammy Fine	Chief Financial Officer/Auditor
Tana Bader-Inglima	Director of Governmental Relations/Marketing
Amber Hanchette	Director of Operations/Real Estate
Larry Peterson	Director of Planning & Development

2013 PORT STAFF

Nick Kooiker
Jen Roach
Augie Gonzales
Bridgette Scott
Kandy Yates
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 29, 2014

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

Dear Commissioners:

The 2013 Annual Financial Report of the Port of Kennewick (the Port) as of and for the year ended December 31, 2013 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 that it conforms with applicable accounting standards and for 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,

Signature on File

Tammy Fine, CPA, CFE
Chief Financial Officer/Auditor

CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Port of Kennewick
Kennewick, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Port of Kennewick, which comprise the statement of net position as of December 31, 2013, 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 an opinion on these financial statements based on our audit. We conducted our audit 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 opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post-employment benefits schedule of funding progress on pages 6-11 and 41 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 16 - Schedule of Federal Awards, Schedule 16 - Schedule of State Financial Assistance, Schedule 19 - Labor Relations Consultants, and Schedule 21 - Local Government Risk Financing 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 16 - Schedule of Federal Awards, Schedule 16 - Schedule of State Financial Assistance, Schedule 19 - Labor Relations Consultants, and Schedule 21 - Local Government Risk Financing 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2015, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Yakima, Washington
February 26, 2015

Port of Kennewick

MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2013

INTRODUCTION

The following is the Port of Kennewick's (the Port) Management's Discussion and Analysis (MD&A) of financial activities and the performance for the calendar year ended December 31, 2013, with selected comparative information for the year ended 2012. 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. In 2013, the Port changed reporting methods from other comprehensive basis of accounting (OCBOA) to generally accepted accounting principles (GAAP). The 2012 financial information in the MD&A is accrual basis and is not comparable since 2013 reflects the newly implemented cost allocation plan. The changes from the implantation of the cost allocation plan are explained within the MD&A.

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 of the results of operations, 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 assets 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

Due to implementing a new cost allocation plan that provides better accounting of the Port's finances, the 2012 figures are not comparable; however, the changes from 2012 to 2013 are identified below. The Port's overall financial condition has improved over the prior year based on several financial highlights stated below:

- Total liabilities decreased by just under $47,000, or 6% from 2012.
- At the end of 2013, the Port held notes payable of just under $303,000. Subsequent to 2013, the Port retired all its debts in full in May of 2014.
- The Port's overall operating revenues increased by just over $21,000, or 2% from 2012.
- The Port's assets exceeded its liabilities at close of calendar year 2013 by nearly $51 million.
- The 2013 operating expenditures before depreciation decreased by approximately $1 million in 2013 in comparison to 2012.
  - This decrease stemmed from the reduction in Vista Field airport related expenditures of approximately $269,000 and the Port's implementation of a cost allocation plan in 2013 where the Port used an approved cost allocation methodology and detailed time tracking to directly allocate time spent in the Marine Division, Property Management Division, Real Estate Division, Economic Development & Planning Division, and Non-Operating Items. By tracking time and applying the direct staffing cost to specific projects, the Port was able to improve financial reporting by applying direct staffing cost to specific projects not associated with the Port's Marine Division or Property Management Division, which are the Port's core operation activities directly tied to operating assets. By applying the Port's direct staffing timesheet allocations, the Port identified approximately $159,000 directly related to capital projects; $60,000 related to the special items of Vista Field ongoing closure and decommissioning and rail transfer; $120,000 towards the Vista Field study and Port audits; $40,000 toward public records requests; $37,000 in Economic Development & Planning Division; $1,400 in Real Estate Division; $21,000 toward jurisdictional partners; and $110,000 toward governmental relations, grants and marketing plus the indirect cost allocations for the above mentioned items. Previously, these costs in 2012 were located within the General and Administration line item within the Operating expenses.
- The Port's non-operating revenues over non-operating expenses was $2,608,106.
- The Port's net position decreased by just over $1.4 million, stemmed from an accounting adjustment of $1.7 million due to the disposal of the Vista Field airport operations. The Vista Field airport land [with an assessed fair market value of just over $15 million] is not reflected in the Port's financial statements since Generally Accepted Accounting Principles (GAAP) require reporting capital assets at cost. The at-cost value of this land is just over $873,000. The disposal of the Vista Field airport operating asset has created a significant development opportunity which the Port anticipates will positively impact the Port's financial position.
- 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, 2013. The statement includes all the Port's assets and liabilities. As described earlier, the net position serves as an indicator of the Port's financial position. A condensed comparison of the Port's assets, liabilities, and net assets at December 31, 2013 and 2012 follows:

PORT OF KENNEWICK'S Net Position

	2013	2012
Current assets	$ 10,414,415	$ 12,144,930
Capital assets	41,106,006	40,833,937
Other noncurrent assets	117,876	142,857
Total assets	**51,638,298**	**53,121,724**
Current liabilities	538,179	648,443
Noncurrent liabilities	197,828	134,477
Total liabilities	**736,007**	**782,920**
Net Position:		
Invested in capital assets, net of related debt	40,738,393	40,274,950
Restricted	-	-
Unrestricted	10,163,898	12,063,854
Total net position	50,902,291	$ **52,338,804**

Net Position: The Port's net position in 2013 represents a healthy organization despite the decrease in net position. This decrease stemmed from Governmental Accounting Standards Boards Statement No. 64 requirement to remove assets from two operating items which are no longer in the Port's operation portfolio and report those assets as a Special Item, thus reducing the Port's net position. This requirement resulted in a non-cash transaction amount of $1,689,071(net of accumulated depreciation). This required accounting treatment was due to closure and decommissioning of the Vista Field airport and selling rail lines to the private sector. This required accounting treatment only recognizes the remaining assets at cost, which is $873,646 for the Vista Field land. The fair market value of the land is $15,198,680 as of December 2013 per the County Assessor. When the Port sells Vista Field land, the gain on land will be reported in the Statement of Revenues, Expenses, and Changes in Net Position as non-operating revenues. As stated in the Port outlook and economic factors below, the Port anticipates a significant increase in future net position due to the decision to close and decommission Vista Field airport.

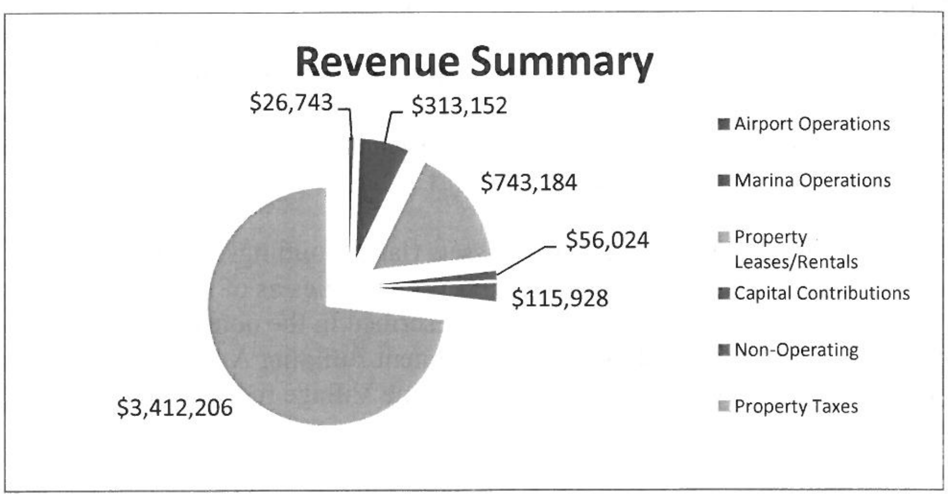
Capital Assets: The Port's investment in capital assets (land, buildings, improvements, machinery and equipment, and construction in progress) for its business activities as of December 31, 2013 amounts to $41,106,006 (net of accumulated depreciation). As described in the notes to the financials, the major capital asset events during 2013 included Oak Street Development Building A and B rehabilitation, land acquisition on Columbia Drive, Columbia Gardens and Willows Wine Village redevelopment, and the West Richland Raceway redevelopment project.

Debt: At the end of 2013, the Port had two nominal outstanding notes payable to Washington State Community Economic Revitalization Board (CERB) and a Washington State Department of Transportation Airport grant repayment agreement as described in the notes to the financials. The principal balance as of December 31, 2013 amounts to $302,912. The Port retired all its debt in May of 2014.

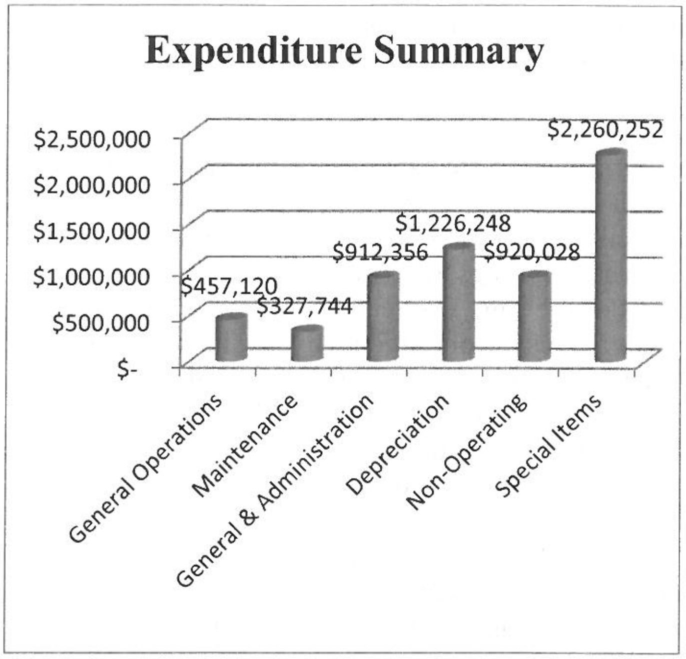
Financial Operating Highlights Summary
The following condensed financial information summarizes the Port's revenues, expenses, and changes in net position:

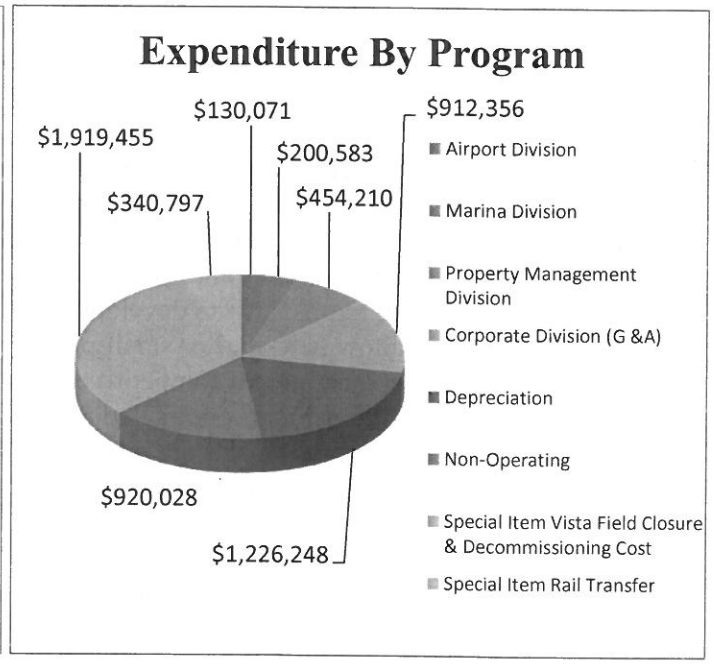
PORT OF KENNEWICK'S Statements of Revenues, Expenses and Change in Net Position		
	2013	**2012**
Operating Revenues	$ 1,083,079	$ 1,061,833
Operating expenses before depreciation	1,697,220	2,713,431
Depreciation	1,226,248	1,224,238
Operating Loss	**(1,840,389)**	**(2,875,836)**
Non-operating revenues (expenses)	(804,102)	620,905
Ad valorem tax revenues	3,412,206	3,285,128
Total non-operating revenues (expenses)	2,608,104	3,906,033
Increase in net position, before capital contribution	767,715	1,030,198
Capital contribution	56,024	130,076
Increase in net position (before Special Items)	823,739	1,160,274
Special Items	(2,260,252)	-
Prior period adjustments	-	
Net position at beginning of year	52,338,804	51,178,530
Net position at end of year	**$50,902,291**	**$52,338,804**

Operating Revenues: 2013 operating revenues amounted to $1,083,079 a slight increase of 2% from 2012.



Operating Expenses: 2013 operating expenses before depreciation amounted to $1,697,220, a decrease of $1,016,211 from 2012. This decrease was described in detail above in the Financial Highlights.





PORT OUTLOOK AND ECONOMIC FACTORS

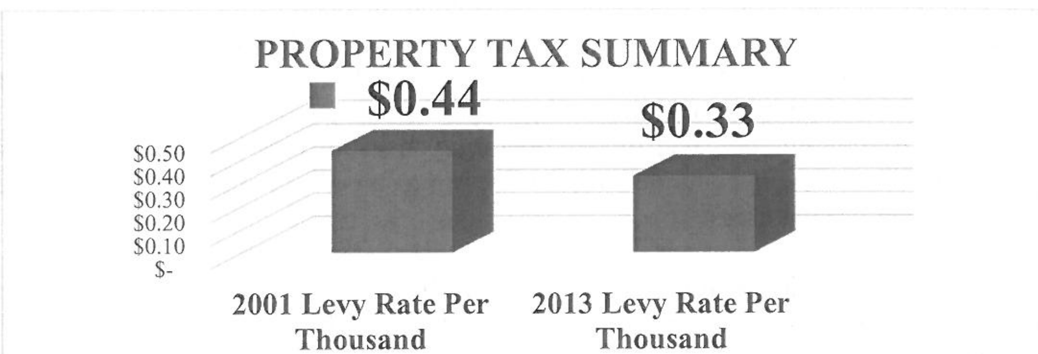
Vista Field Redevelopment: One of the largest projects the Port of Kennewick is pursuing is the redevelopment of Vista Field. The 112-acre site is situated at the heart of the region's commercial center, adjacent to the Three Rivers Convention Center and Lawrence Scott Park in Kennewick, and surrounded by vibrant commercial activity. In 2013, Port Commissioners voted to close the small and infrequently used, general aviation airfield when it became clear redevelopment was the only alternative that wouldn't require thousands of dollars of ongoing taxpayer funded operating cost subsidies and/or a property tax increase. Redevelopment eliminates taxpayer-funded airport operating subsidies and, long term, will benefit the entire community rather than limited users.

In April 2014, Port Commissioners hired Duany Plater-Zyberk & Co. (DPZ) to gather community input and craft strategic recommendations for roads, utilities, design standards, code amendments, key building locations and public spaces, a phasing plan, and financing strategy. A 2013 Planning, Environmental, and Economic Analysis by the consultant team DPZ and ECONorthwest indicate redevelopment could mean as many as 3,380 jobs, $460 million in private sector investment, $51 million in new infrastructure, and $408 million in new (taxable) buildings when the site is fully developed and occupied. Undertaking a project this size takes substantial amounts of planning, research, and public input. At this point, the specific future revenues are difficult to forecast, but it is expected that a project of this magnitude will have a larger return on investment in terms of both financial and community impact. However, annual Port revenue projections will not be available until the master planning is complete.

Columbia Drive Redevelopment: Immediately adjacent to Clover Island in Kennewick, the Port is working to create an urban wine and artisan village within the historic Columbia Gardens and Willows neighborhoods. The vision is to create a place where residents can stroll among wine, craft brew or distillery tasting rooms, galleries, restaurants, and boutique shops; and enjoy outdoor concerts, public art, and watchable wildlife along a scenic nature trail. The Port has determined that there is significant demand for this type of development due to the prospering wine industry in the Columbia Basin. In addition, Columbia Drive presents a unique opportunity because of its waterfront location and proximity to Historic Downtown Kennewick.

The Port and City of Kennewick (the City) signed an agreement to kick-start development of the Columbia Gardens area and are committing up to $1.3 million each in funding various projects to be completed by the end of 2015. The City will construct a pre-treatment facility for wine waste-water, add streetscaping and parking, and extend the nature trail. The Port will renovate buildings to accommodate boutique wine production or tasting rooms, artisan development spaces or specialty markets. Investing in basic infrastructure will allow new-start or small-production wineries to connect directly to City sewer and have access to fire services, creating a competitive advantage for Kennewick's historic waterfront. The Port and City plan to have improvements completed to accommodate wineries for crush of 2015. The financial, economic, and community impacts are projected to have a positive return to both the Port and City, and their taxpayers. The projected annual Port revenues will not be available until master planning is complete.

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 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 2013 which is a 25% decrease. The difference in potential tax revenue between the 2013 year levy amount and the $.045 legal limit is $1,225,206.



A $200,000 house cost $88 in Port property taxes in 2001; and just $66 in 2013. That's a 25% savings!

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 Web Site at www.portofkennewick.org or contact: Chief Financial Officer, 350 Clover Island Drive, Suite 200, Kennewick, WA 99336; Telephone (509) 586-7978; Fax (509) 582-7678.

Port of Kennewick

STATEMENT OF NET POSITION*
December 31, 2013

ASSETS		
Current Assets:		
Cash and cash equivalents	$	10,189,509
Taxes receivable		102,018
Other receivables (net)		32,019
Prepaid expenses		62,688
Current portion of notes and interest receivable		28,181
Total current assets	$	10,414,415
Noncurrent Assets:		
Noncurrent portion of notes receivable		117,876
Capital assets		
Capital assets not being depreciated:		
Land		12,833,945
Construction in progress		990,500
Capital assets being depreciated:		
Improvements to land		8,333,107
Buildings		26,152,188
Equipment		981,966
Less: accumulated depreciation		(8,185,700)
Total capital assets (net)		41,106,006
Total noncurrent assets	$	41,223,882
TOTAL ASSETS	$	51,638,298

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

Port of Kennewick

STATEMENT OF NET POSITION*
December 31, 2013

LIABILITIES		
Current Liabilities:		
Warrants payable	$	209,915
Compensated absences		122,309
Retainage payable under construction contracts		462
Current portion of notes payable		151,456
Current portion of unearned revenue		12,190
Lease securities payable		41,847
Total current liabilities		538,179
Noncurrent Liabilities:		
Other post-employement benefits obligation		46,372
Noncurrent portion of notes payable		151,456
Total noncurrent liabilities		197,828
TOTAL LIABILITIES	$	736,007
NET POSITION		
Net investment in capital assets		40,738,393
Unrestricted		10,163,898
TOTAL NET POSITION	$	50,902,291

***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, 2013

OPERATING REVENUE		
Property lease/rental operations	$	743,184
Marina operations		313,152
Airport operations		26,743
Total operating revenues		1,083,079
OPERATING EXPENSES		
General operations		457,120
Maintenance		327,744
General and administration		912,356
Total before depreciation		1,697,220
Depreciation		1,226,248
Total operating expenses		2,923,468
Operating loss		(1,840,389)
NONOPERATING REVENUES (EXPENSES)		
Taxes levied for general purposes		3,412,206
Interest income		47,542
Gain on disposition of assets		57,149
Other nonoperating revenues		11,235
Real estate division expenses		(4,014)
Economic development division expenses		(111,881)
Public, election, OPEB & governmental relations expenses		(804,133)
Total nonoperating revenues (expenses)		2,608,104
Income before other revenues, expenses, gains and loses		767,715
Capital contributions		56,024
Special item -Vista Field closure & decommission		(1,919,455)
Special item-rail transfer		(340,797)
Decrease in net position		(1,436,513)
Net position - beginning of year		52,338,804
Net position - end of year	$	50,902,291

***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, 2013

Business-Type Activities		
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from customers	$	1,064,852
Payments to suppliers		(471,078)
Payments to employees		(1,214,755)
Net cash used by operating activities		(620,981)
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Non-capital property taxes received		1,419,060
Non-operating receipts		11,235
Non-operating expenses		(873,656)
Special item expenses		(338,320)
Net cash provided by noncapital financing activities		218,319
CASH FLOWS from CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital property taxes received		1,996,098
Proceeds from sale of capital assets		101,256
Principal paid on capital debt		(31,667)
Purchases of capital assets		(3,541,619)
Capital contributions		56,024
Net cash used by capital and related financing activities		(1,419,908)
CASH FLOWS from INVESTING ACTIVITIES		
Interest and dividends on investments		48,491
Proceeds from contract installments		23,565
Net cash provided by investing activities		72,056
Net decrease in cash and cash equivalents		(1,750,514)
Balances - beginning of the year		11,940,023
Balances - end of the year	$	10,189,509

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

Port of Kennewick

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities
Proprietary Fund*
For the Year Ended December 31, 2013

Operating loss	$	(1,840,389)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		1,226,248
Changes in assets and liabilities		
Accounts receivable (net)		(17,305)
Prepayments		(5,181)
Customer deposits payable		(703)
Warrants payable		(7,911)
Compensated absences		24,134
Unearned revenue		126
Net cash used by operating activities	$	(620,981)

Non-Cash Investing, Capital, and Financing Activities:

Special Items
As disclosed in Note 6, *Extraordinary and/or Special Items,* during 2013 the Port disposed of two operating assets. As required by Governmental Accounting Standards Statement No. 69, the portion of the capital asset that will no longer be used in the Port operations is required to be removed from the Port's capital assets net of their accumulated depreciation and report the full amount of the disposal of operating asset plus any associated expenses as a special item on the Statement of Revenues, Expenses, and Changes in Net Position. The associated cash transactions of these special items are included in the Statement of Cash Flows and the noncash portion due to the removal of the net capital asset are as follows:

Vista Field Ongoing Closure & Decommissioning	$1,689,071
Rail Transfer	$ 304,004

Disposal of Capital Assets & OPEB Liability
The Port surplused several capital assets during 2013 and implemented GASB 45 with a OPEB liability. The noncash portion of these transactions are as follows:

Capital Asset Disposal/Surplus	$ 22,056
OPEB Liability	$ 46,372

***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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Kennewick (the Port) was incorporated on April 12, 1915 and operates under the laws of the State of Washington applicable to public port districts. The financial statements of the Port of Kennewick have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

The Port is a special purpose government and provides marina, non-commercial airport (which ceased operation as of 5 p.m. December 31, 2013) and property lease/rental operations to the general public and is supported primarily through user charges, property sales, and/or property taxes.

The Port is governed by an elected three member Board of Commissioners. As required by GAAP, management has considered all potential component units in defining the reporting entity. These financial statements present the Port of Kennewick (the primary government) and its related organization. The related organization discussed in *Note 7* is included in the Port of Kennewick's notes as it has a financial relationship with the Port.

B. Basis of Accounting

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. In 2013, the Port changed reporting methods of financial reporting from other comprehensive basis of accounting (OCBOA) to generally accepted accounting principles (GAAP).

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(s).

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

Operating expenses for the Port include expenses associated with the operations of the Airport Division, Marine Division, and Property Management Division for the services provided by and for leasing of Port property for the Airport Division, Marine Division, and the Property Management Division. Operating expenses also include general and administrative (Corporate Division) expenses as defined below, and depreciation of capital assets.

In 2012, the Port developed 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 non-operating divisions. This cost allocation was officially implemented in 2013 and is reflected in this annual report. 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, non-operating 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, non-operating 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.

Non-operating revenues are defined as revenues that do not support the Port's Airport, Marine, and Property Management Divisions. Non-operating 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 Airport, Marine, and Property Management Divisions.

Non-operating costs are expenses incurred by activities not related to the Airport, Marine, and Property Management Divisions. Furthermore, some of the non-operating costs are non-recurring 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. Non-operating 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; non-capital studies that do not currently impact or improve the Airport, Marine, and Property Management Divisions; other post-employment benefits (which are defined as a 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 Airport, 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 non-operating 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. This 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 non-operating 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. Assets, Liabilities, and Net Position

a. Cash and Cash Equivalents
It is the Port's policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer held $10,174,509 in short-term residual investments of surplus cash as discussed in Note 5, *Deposits and Investments*. At December 31, 2013, the Port also had $15,000 in a petty cash accounts held at Washington State approved depositories. 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 14, *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 account 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 Deprecation.*

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.

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 Assets as a current liability.

g. Deferred Outflows/Inflows of Resources
In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance on financial reporting of deferred inflows and outflows of resources. The Port has adopted this new pronouncement in the current year and the Port does not have any amount required to be reported as deferred outflows/inflows of resources as of December 31, 2013. As such, the adoption of this statement does not have a material effect on the Port's financial statements.

h. Compensated Absences
Compensated absences are absences for which employees will be paid, such as paid time off (PTO). The Port records unpaid leave for compensated absences as an expense when paid and a liability when incurred.

Payable upon separation of services from the Port, PTO 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 9, *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 8, *Leases* and Note 9, *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, 2013, the Port did not have any impaired capital assets except the Port Commission voted in 2013 to discontinue two major operating capital assets as disclosed in Note 6, *Extraordinary and/or Special Items*.

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

	Beginning Balance 1/1/2013	Deletions	Additions	Ending Balance 12/31/2013
Capital assets, not depreciated:				
Land	$ 11,901,397	$ 11,331	943,879	$ 12,833,945
Construction in progress	990,193		307	990,500
Total capital assets, not depreciated	12,891,590	11,331	944,186	13,824,445
Capital assets, depreciated:				
Buildings	24,266,009	256,763	2,142,942	26,152,188
Improvements other than buildings	12,357,283	4,153,817	129,641	8,333,107
Machinery and equipment	1,113,393	188,709	57,282	981,966
Total capital assets, depreciated	37,736,685	4,599,289	2,329,865	35,467,261
Less accumulated depreciation for:				
Buildings	4,628,264	66,190	536,630	5,098,704
Improvements other than buildings	4,470,901	2,594,692	621,315	2,497,524
Machinery and equipment	695,171	174,002	68,303	589,472
Total accumulated depreciation	9,794,336	2,834,884	1,226,248	8,185,700
Total capital assets depreciated (net)	$ 27,942,349	$ 1,764,405	$ 1,103,617	$ 27,281,561

NOTE 3 – CONSTRUCTION COMMITMENTS

The Port had no active construction projects as of December 31, 2013. However, the Port has several projects in planning stages where commitments are under contract with various firms and jurisdictional partners (City of Kennewick and City of West Richland).

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

Project	Spent to Date	Remaining Commitment
Vista Field Redevelopment	$ 33,160	$ 76,340
Vista Field Development Facility Building Improvements	$ 93,353	$ 656,647
CTUIR Heritage Artwork	$ 41,173	$ 52,152
Yacht Club Building Remodel	$ 3,850	$ 2,150
Village at Island Harbor	$ 133,215	$ 50,285
Columbia Gardens Redevelopment & 211 E Columbia Drive Building	$ 134,865	$ 1,321,250
Willows Wine Village Redevelopment	$ 133,300	$ -
West Richland Raceway Effluent Project & Interlocals	$ 62,449	$ 47,051
Port Office Remodel	$ 3,600	$ 12,900
Clover Island Boat Parking & Restroom (does not include grant amount)	$ 1,000	$ 356,218
Total	*$ 639,965*	*$ 2,574,993*

Of the committed balance of $2,574,993, the Port has sufficient funding available to cover all cost as disclosed in Note 5, *Deposits and Investments*.

NOTE 4 – CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes 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 9, *Long-Term Debt*, the Port is contingently liable for repayment of 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.

As of December 31, 2013, the Port Commission closed Vista Field airport. The Port will be purchasing a commercial hangar in accordance with a hangar land-lease agreement that requires the Port to negotiate with the tenant to purchase the hanger. In the event the two parties cannot negotiate a price, the Port and tenant are directed in the lease to obtain independent appraisals and then average the two appraisals to determine a price. As of the date of this financial statement report, the tenant has not agreed to the average price of the two appraisals so the parties underwent mediation where the mediator recommended a purchase price of $506,500, which was approved by the Port Commission in May of 2014.

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.

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 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; rehabilitate a portion of the Port's 211 Columbia Drive building to accommodate 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 two interlocal agreements with the City of West Richland to perform joint development projects. The first interlocal agreement provides a land commitment for the City of West Richland to plan their wine effluent treatment center on the Port's "former raceway" property for matching purposes for the City's grant. The details of the land commitment (i.e. location, size, partnership arrangement, etc.) will be negotiated in a future interlocal agreement. At this point, there is a remaining balance of $2,750 to be paid by the Port to the City for cost sharing of a winery effluent treatment facility study. The second interlocal agreement was signed in 2012 with a remaining balance to be paid by the Port of $44,301. This interlocal agreement formalized a commitment for the Port to provide the City of West Richland funding for the Van Giesen Redevelopment and Yakima Gateway projects where their master plan calls for master planning, façade improvements, public benefit incentives, signage, recruitment programs, and economic development marketing.

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 over 2013, 2014, and 2015. The tenant agreed to increase their lease rate, thus providing additional rental revenue to the Port of $401,618 from 2013 to 2017, and 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.

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, 2013 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 $10,000,000 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 non-negotiable 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, 2013 are as follows:

Deposit	Maturity	Fair Value of Port of Kennewick's Own Investments	Fair Value of Investments held by Benton County Treasurer as an agent *(ex officio Treasurer)* for the Port of Kennewick	Total
Benton County Investment Pool	Daily	$0.00	$10,174,509	$10,174,509
Total		$0.00	$10,174,509	$10,174,509

The above deposit amount does not include the Port's highly liquid $15,000 petty cash accounts held at Washington State approved depositories.

External Investment Pool. The Benton County TIP is not registered with the SEC as an investment company. Oversight is provided by the Benton County Finance Committee. In 2012, 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 2013. 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, 2013 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 $10,000,000 as per the Investment Service Agreement.

NOTE 6 – EXTRAORDINARY AND/OR SPECIAL ITEMS

The Port had two significant special items in 2013 subject to management's control where there was disposal of operating assets.

In 2012, 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 112-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 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 recognized a loss of $1,449,492 on the disposal of its operating assets related to closure and decommissioning of Vista Field airport and incurred $469,961 in related closure and decommissioning costs as a special item as required by Governmental Accounting Standards Statement No. 69. The Port's 2013 expenses related to the airport operations totaled $130,071; and 2013 revenues associated with airport operations totaled $26,743. The Port anticipates ongoing decommissioning and closure costs in 2014 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).*

In September 2013, the Port transferred the assets comprising the majority of its rail line operations to KET, LLC for the purpose of having a railroad agency properly manage, service, and maintain the rail lines as well as cut Port losses associated with those rail lines. As a result of this transfer, the Port recognized a loss of $304,003 on the disposal of its operating assets and incurred $36,794 in related cost associated with the transfer as a special item as required by Governmental Accounting Standards Statement No. 69. The Port estimated from 1995 to 2012 it averaged $38,000 in annual losses (including capital outlays) from Port rail line operations. The total loss (including capital outlays) since 1995 was estimated at $665,000. In 2013, the Port received $0 operating revenues and the 2013 operating expenses were estimated under $5,000. The rail line operating expenses are located within the Property Management Division operations and are not reported separately as they are deemed immaterial to the Port's overall operations.

NOTE 7 – FORMATION OF PUBLIC ENTERPRISE (JOINT VENTURES)

The Port of Kennewick Economic Development Enterprise (EDE), a related organization to the Port, was formed on January 5, 1982 pursuant to the provisions of 1981 Washington Laws Chapter 300 to promote local economic development. The Port's Chief Executive Officer and Chief Financial Officer serve as volunteer directors of the EDE. During the year, revenues of the EDE were $35,000 and expenses were $355. As of December 31, 2013, the fund balance was $53,213.

NOTE 8 – LEASES

As of December 31, 2013, the Port had no material non-cancellable contracts where the Port leases property as a lessee.

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 13 non-cancellable lease arrangements ranging in monthly payments between $250 and $12,000 with either fixed, one to three percent, or Consumer Price Index rent escalation clauses. Seven of the non-cancellable leases have contract terms ranging from one to four option(s) of 3 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's minimum future lease rental income on non-cancellable operating lease terms remaining in excess of one year are as follows:

Years Ending December 31	
2014	$ 452,063
2015	378,979
2016	336,316
2017	252,373
2018	106,717
Thereafter	1,973,816
TOTAL	***$ 3,500,264***

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 9 – LONG-TERM DEBT

A. Long-Term Debt, Refunded Debt, Conduit Debt, and Special Assessments
As of December 31, 2013, 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, 2013, notes payable included:
A $63,333 non-interest-bearing loan obtained from Washington State Community Economic Revitalization Board (CERB). The Port used the CERB note payable funding for infrastructure improvements that spurred economic development opportunities for a tenant which reimburses the Port each year. The total amount available from CERB was $475,000. Fifteen annual payments of $31,667 were due, starting on January 1, 2001; the Port paid the CERB note in full on May 14, 2014.

A $239,579 grant reimbursement to Washington State Department of Transportation (WSDOT). As discussed in Note 4, *Contingencies and Litigation*, the Port Commission closed Vista Field airport and is required to pay back some of the grants received for capital improvements on Vista Field. The repayment agreement dated September 17, 2013 with WSDOT was for a total of $239,580 in order to help WSDOT stimulate other priority economic development projects; the WSDOT reimbursement was paid in full on May 14, 2014.

The accompanying Schedule 09 – Schedule of Liabilities provides a listing of the outstanding Port debt and summarizes debt transactions for 2013. Debt service requirements are as follows:

Debt	Principal Beginning Balance - Short Term Amount *(due within one year)* 1/1/13	Principal Beginning Balance - LongTerm Amount 1/1/13	Issued Short-Term Debt Amount *(due within one year)*	Issued Long-Term Debt Amount	Redeemed Amount	Interest	Total or Ending Balance 12/31/13
CERB	$ 31,667	$ 63,333	$ -	$ -	$ 31,667	$ -	$ 63,333
WSDOT	-	-	119,790	119,790	-	-	239,579
Total	**$ 31,667**	**$ 63,333**	**$ 119,790**	**$ 119,790**	**$ 31,667**	**$ -**	**$302,912**

Debt	Beginning Balance 1/1/14	2014	2015	2016	Total Payments
CERB	$ 63,333	$ 31,667	$ 31,666	$ -	$ 63,333
WSDOT	239,579	119,789	59,895	59,895	239,579
Total	**$ 302,912**	**$ 151,456**	**$ 91,561**	**$ 59,895**	**$ 302,912**

As of December 31, 2013, the Port has enough revenues, cash, and cash equivalents to fully fund debt service.

NOTE 10 – 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 had two large non-monetary transactions in 2013 related to the closure of Vista Field airport and transfer of rail lines to the private sector as discussed in Note 6, *Extraordinary and/or Special Items*. The non-monetary transactions do not impact the Port's cash flow statement and is disclosed as a Special Item on the Statement of Revenues, Expenses, and Changes in Net Position.

In 2012 the Port underwent an extensive Vista Field Planning, Environmental and Economic Analysis with integrated Economic Impact Statement. On April 17, 2013, the Port Commissioners unanimously voted to amend the Port's Comprehensive Scheme of Development plan to include closing and redeveloping the Vista Field airport as outlined in the study. On June 25, 2013, the Port Commissioners unanimously voted to close Vista Field as an airport effectively at 5 p.m. on December 31, 2013. Due to that recent development, WSDOT Aviation agreed on September 17, 2013, it will require grant repayments of $239,580 over a three-year period starting in 2014. The Port refunded prepaid rent on a through-the-fence rental agreement with Pacific Cataract Laser Institute, and the Port has agreed to purchase a hangar in accordance with a land lease agreement with Dr. Shannon.

The Port had one real estate land sale for 96,019 square feet of land located in the Port's Oak Street Industrial Site. The land sale amount was $96,021 less $24,802 for the purchaser to make capital improvements to the land. The purchaser made the improvements as stipulated and was refunded in full the $24,802. The Port recognized a $57,149 gain on land sale on this transaction.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for 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 a continued medical insurance coverage after termination or retirement. In its plan document with the Public Employees Benefits Board (PEBB) 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 which 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, only 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.
- 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 $46,372 is included as a noncurrent liability in the Statement of Net Position.

		Fiscal Year Ending 12/31/2013
Determination of Annual Required Contribution:		
Normal Cost at Year End	$	35,190
Amortization of Unfunded Actuarial Accrued Liability		12,930
Annual Required Contribution	$	48,120
Determination of Annual OPEB Cost:		
Annual Required Contribution	$	48,120
Net OPEB Obligation Interest		-
Net OPEB Obligation Amortizaton		-
Annual OPEB Cost	$	48,120
Determination of Net OPEB Obligation:		
Starting Net OPEB Obligation	$	-
Annual OPEB Cost		48,120
Contributions		1,748
Net OPEB Obligation	$	46,372

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2013 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions as a Percentage of OPEB Cost	Net OPEB Obligation
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 put into the trust. If the Port left the PEBB program, the Port would not be able to get the money out of the trust. As of December 31, 2013, 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 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 percent. General and salary inflation are the same as those used in the June 30, 2013 actuarial valuation report (AVR) issued by the Office of the State Actuary.

Cost inflation begins at approximately 8% in 2013 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 percent; the average cost for Medicare medical plans increased by 4.3 percent. Actual medical cost inflation since the last valuation date was lower than the assumed rate of approximately 14.6 percent. Covered payroll is assumed to grow at 3.75 percent per year.

Demographic assumptions are the same as those used in the June 30, 2013 AVR, which were developed from the 2001-2006 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 UAAL.

The medical trend, claim cost, aging factors, and analysis of "Cadillac" plans were determined by Milliman and used by the Office of the State Actuary for the OPEB actuarial valuation report dated October 2013. 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, 2013, and was projected forward to match the open enrollment medical plan choices as of January 1, 2013. A single retirement age of 62.20 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, 2013 actuarial valuation report issued by the Office of the State Actuary.

The Projected Unit Credit (PUC) is the actuarial funding method chosen for the Office of the State Actuary report to determine the AAL. The Unfunded Actuarial Accrued Liability (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 12 – PENSION PLANS

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

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

Plan Description

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

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

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

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

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

Funding Policy

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

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

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

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

Members Not Participating in JBM:

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

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

Members Participating in JBM:

	PERS Plan 1	*PERS Plan 2*	*PERS Plan 3*
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 2	*PERS Plan 3*
2013	$61,884	$3,037
2012	$55,953	$-0-
2011	$43,808	$-0-

NOTE 13 – 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 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 non-operations on the Statement of Revenues, Expenses and Changes in Net Position.

NOTE 14 – 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 2013 was $0.33 per $1,000 on an assessed valuation of $10,262,029,874 for a total regular tax levy of $3,395,879. In 2012, the regular tax levy was $3,277,022.

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

NOTE 15 – RISK MANAGEMENT

Port of Kennewick is a member of the Cities Insurance Association of Washington. 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 September 1, 2013, there are 236 members in the program.

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

The pool acquires liability insurance through its administrator, Canfield Solutions, that is subject to a per-occurrence self-insured retention of $100,000. 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, with an attachment point of $3,247,000 to cap the total claims paid by the program in any one year.

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 ($10,000 for pumps and motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Government Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Government Agreement.

A board of 10 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. Claims are filed by members with Canfield Solutions, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ended August 31, 2013, were $1,423,059.

The Port of Kennewick had no claims in 2013 and had no claims paid out in 2013.

Port of Kennewick has chosen to be self-insured for unemployment insurance purposes. The Port had no claims during 2013 and no unemployment claims are outstanding as of December 31, 2013. The Port has sufficient unrestricted cash as disclosed in Note 5, *Deposits and Investments* to pay any future claims if incurred.

NOTE 16 – 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*.

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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
6/30/2013	12/31/2013	$ -	$223,577	$223,577	0.00%	$ 903,183	24.75%

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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 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, 2013, 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 February 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit 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

CliftonLarsonAllen LLP

Yakima, Washington
February 26, 2015

Port of Kennewick

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Schedule 01
Revenues/Expense

For the Year Ended December 31, 2013

Account Code	Account Title	Actual Amount
614.00	Airport Operating Revenues	26,743
621.00	Marina User Charges	313,152
652.00	Capital Contributions	56,024
664.00	Property Leases/Rental Revenues	743,184
699.20	Ad Valorem Taxes	3,412,206
699.90	Nonoperating Revenues	115,928
711.00	Airport Operating	91,016
713.00	Airport Maintenance	39,055
721.00	Marina Operating	114,296
723.00	Marina Maintenance	86,287
761.00	Property Lease/Rental Operating	251,808
763.00	Property Lease/Rental Maintenance	202,402
781.00	Corporate Division (G&A)	912,356
767.00	Depreciation	1,226,248
799.00	Non-Operating Expenses	920,028
799.90	Special Items	2,260,252

Port of Kennewick

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Schedule 09
Schedule of Liabilities*

For the Year Ended December 31, 2013

Debt Type	*ID. No.*	*Description*	*Date of Original Issue*	*Date of Maturity*	*Beginning Balance 1/1/2013*	*Additions*	*Reductions*	*Ending Outstanding Debt 12/31/13*
General Obligations (GO)								
GO	259.11	Compensated Absences	N/A	N/A	$ 98,175	$ 24,134		$ 122,309
GO	263.61	CERB Capital Improvements	Jun-94	15-Jan	$ 95,000	$ -	$ 31,667	$ 63,333
GO	263.93	OPEB/Pension Related Liabilties	Jan-13	N/A	$ -	$ 46,372	$ -	$ 46,372
GO	263.98	WSDOT Grant Repayment	13-Sep	15-Jun	$ -	$ 239,579	$ -	$ 239,579
			Total Liabilities:		**$193,175**	**$310,085**	**$31,667**	**$471,593**

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

Port of Kennewick

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Schedule 16
Schedule of Federal Awards*

For the Year Ended December 31, 2013

Grantor/Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Current Year Direct Expenditures	Footnote Ref
None	N/A	N/A	None	N/A

The accompanying Notes to the Schedule of Federal Awards are an integral part of this Schedule.

Port of Kennewick

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Notes to the Schedule of Federal Awards

For the Year Ended December 31, 2013

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 direct expenditures represent only the federal grant portion of the project cost. The entire program cost, including the Port's portion, are more than shown.

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Schedule 16
Schedule of State Financial Assistance

For the Year Ended December 31, 2013

Grantor/ Program Title	Identification Number	Current Year Expenditures
Washington State Recreation Conservation Office Grant - Mobile Pump Out Grant	N/A	$30,000
TOTAL STATE ASSISTANCE		**$30,000**

The accompanying Notes to the Schedule of State Financial Assistance are an integral part of this Schedule.

Port of Kennewick

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Notes to the Schedule of State Financial Assistance

For the Year Ended December 31, 2013

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.

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Schedule 19
Labor Relations Consultant(s)

For the Year Ended December 31, 2013

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

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Schedule 21
Local Government Risk Financing

Property and Liability
For the Year Ended December 31, 2013

Legal Name:	Cities Insurance Association of Washington
Established:	September 1, 1988
Program Manager:	Rich Moore
Address:	451 Diamond Drive Ephrata, WA 98823
Phone:	(509) 754.2027
Email:	kstevens@canfieldsolutions.com
Fiscal/Plan Period:	September 1, 2012 through August 31, 2013
Coverage:	Joint Property and Liability with 236 members

The Port of Kennewick is a member of the Cities Insurance Association of Washington. 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 pool 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 September 1, 2013, there are 236 members in the program.

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

The pool acquires liability insurance through its administrator, Canfield Solutions, which is subject to a per-occurrence self-insured retention of $100,000. Members are responsible for the first $1,000 of the deductible for each claim, while the program is responsible for the remaining $100,000 self-insurance 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 portion of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of $3,247,000 to cap the total claims paid by the program in any one year.

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 ($10,000 for pumps and motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Government Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Government Agreement.

A board of 10 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. Claims are filed by members with Canfield Solutions, which has been contracted to perform the daily administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ended August 31, 2013, were $1,423,059.

The Port of Kennewick had no claims in 2013 and no previous Port of Kennewick claims were paid out in 2013.

Port of Kennewick

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Schedule 21
Local Government Risk Financing

Property and Liability
For the Year Ended December 31, 2013

Program:	Unemployment Compensation
Fiscal/Plan Period:	January 1, 2013 through December 31, 2013
Coverage:	Port of Kennewick

The Port has chosen to be self-insured for unemployment insurance purposes for Port of Kennewick employees only. Washington State Department of Labor and Industries Employment Securities Division administers the Port's unemployment claims, if any. As of December 31, 2013, the Port has sufficient unrestricted cash as disclosed in Note 5, *Deposits and Investments* to pay any future claims if incurred. The Port had no claims during 2013, no claims paid out during 2013, and no unemployment claims are outstanding as of December 31, 2013.