



CliftonLarsonAllen

CliftonLarsonAllen LLP  
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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, 2014, and have issued our report thereon dated November 5, 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 2014.

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 estimates affecting the financial statements were:

- 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.
- Management's estimate of the allocation of indirect costs is based on a reasonable and consistent basis using factors such as direct payroll allocation, square footage, full time equivalents within each department, and total direct expenses. We evaluated the key factors and assumptions used to develop the allocation of indirect costs in determining that it is reasonable in relation to the financial statements taken as a whole.

### Financial statement disclosures

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

- The disclosure of a significant special item related to the disposal of operating assets and the ongoing decommissioning activities from that disposal in Note 6 to the financial statements.

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

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

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

### **Uncorrected misstatements**

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

### **Corrected misstatements**

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 November 5, 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**

Yakima, Washington  
November 5, 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, 2014**

Certified correct as of May 29, 2015 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, 2014**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

List of Commissioners and Employees	2
Letter of Introduction	3

**FINANCIAL SECTION**

Auditors' Opinion Letter	4-6
Management's Discussion and Analysis	7-14
Statement of Net Position	15-16
Statement of Revenues, Expenses, and Changes in Net Position	17
Statement of Cash Flows	18-19
Notes to Financial Statements	20-43

**REQUIRED SUPPLEMENTAL INFORMATION**

Other post-employment benefits schedule of funding progress	44
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 <i>Government Auditing Standards</i>	45-46

**STATISTICAL SECTION (UNAUDITED)**

Schedule 01 – Revenues and Expense	47
Schedule 09 – Schedule of Liabilities	48
Schedule 15 – Schedule of State Financial Assistance	49
Schedule 16 – Schedule of Federal Awards	50
Schedule 19 – Labor Relations Consultant(s)	51
Schedule 21 – Local Government Risk Financing	52-54

# **PORT OF KENNEWICK**

## **ANNUAL FINANCIAL REPORT**

**For the Year Ending December 31, 2014**

### **2014 COMMISSIONERS**

Don Barnes	President
Skip Novakovich	Vice President
Thomas Moak	Secretary

### **2014 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

### **2014 PORT STAFF**

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

### **MISSION STATEMENT**

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

May 29, 2015

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

Dear Commissioners:

The 2014 Annual Financial Report of the Port of Kennewick (the Port) as of and for the year ended December 31, 2014 is hereby submitted for your review. Responsibility for the accuracy of the data, the completeness and fairness of presentation, including all disclosures, rests with the management of the Port. The Port has established a comprehensive framework of internal controls to provide reasonable assurance that the financial statements are free from any material misstatements. I believe the data, as presented, is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the transactions of the Port, and that all disclosures necessary to gain a reasonable understanding of the Port's financial affairs have been included.

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

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

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

Sincerely,

Tammy Fine, CPA, CFE, CGMA  
Chief Financial Officer/Auditor

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Port of Kennewick  
Kennewick, Washington

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

We have audited the accompanying financial statements of the Port of Kennewick, which comprise of the statement of net position as of December 31, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Kennewick as of December 31, 2014, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port of Kennewick's basic financial statements. The Schedule 01 – Revenues and Expense, Schedule 09 – Schedule of Liabilities, Schedule 15 – Schedule of State Financial Assistance, Schedule 16 – Schedule of Federal Awards, Schedule 19 – Labor Relations Consultant(s), 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 15 – Schedule of State Financial Assistance, Schedule 16 – Schedule of Federal Awards, Schedule 19 – Labor Relations Consultant(s), 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 them.



Board of Commissioners  
Port of Kennewick

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 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**

Yakima, Washington  
November 5, 2015

## **Port of Kennewick**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ended December 31, 2014**

#### **INTRODUCTION**

The following is the Port of Kennewick (the Port) Management's Discussion and Analysis (MD&A) of financial activities and the performance for the calendar year ended December 31, 2014, with selected comparative information for the year ended 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial activities of the Port, to identify any significant changes in financial position, and to serve as an introduction to the Port's financial statements.

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

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

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

The Statements of Net Position and Revenues, Expenses, and Changes in Net Position provide the Port with an overall financial position, and an understanding 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

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 \$197 thousand, or 27% from 2013.
- The Port retired all its outstanding debt in full in May of 2014.
- The Port's overall operating revenues decreased by just over \$6 thousand, or less than 1% from 2013 primarily due to closing the Vista Field Airport. Nevertheless, much greater operating income is expected in the future from the re-development of the land.
- The Port's assets exceeded its liabilities at close of calendar year 2014 by just over \$52 million.
- The 2014 operating expenditures after depreciation increased by approximately \$10 thousand in 2014 in comparison to 2013.
- The Port's non-operating revenues over non-operating expenses was just under \$3.2 million for a \$552 thousand or a 21% increase from 2013.
- The Port's net position increased by approximately \$1.2 million from 2013.
- There are no known significant liabilities or contingencies that will negatively impact the Port's future financial position.

### Financial Position Summary

The Statement of Net Position presents the financial position of the Port as of December 31, 2014. 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, 2014 and 2013 follows:

<b>PORT OF KENNEWICK'S Net Position</b>			<b>2014</b>	<b>2013</b>
Current assets			\$ 11,069,215	\$ 10,414,415
Capital assets			41,515,770	41,106,006
Other noncurrent assets			28,065	117,876
<b>Total assets</b>			<b>52,613,050</b>	<b>51,638,298</b>
Current liabilities			426,584	538,179
Noncurrent liabilities			112,552	197,828
<b>Total liabilities</b>			<b>539,136</b>	<b>736,007</b>
<b>Net Position:</b>				
Invested in capital assets, net of related debt			41,442,019	40,738,393
Restricted			-	-
Unrestricted			10,631,895	10,163,898
<b>Total net position</b>			<b>\$ 52,073,914</b>	<b>\$ 50,902,291</b>

**Capital Assets:** The Port's investment in capital assets (land, buildings, improvements, machinery and equipment, and construction in progress) for its business activities increased by just over \$409 thousand (net of accumulated depreciation). As described in the notes to the financials, the major capital asset events during 2014 included Vista Field redevelopment, Columbia Gardens and Willows Wine Village redevelopment, and the West Richland Raceway redevelopment project.

**Current and Noncurrent Liabilities:** The Port reduced the current and noncurrent liabilities by approximately \$197 thousand, a 27% decrease.

The Port's current liabilities consist of warrants and retainage payable that cleared in 2015, employee accrued paid time off (compensated absences), lease securities payable, and prepaid rents (unearned revenue).

The Port's noncurrent liabilities consist of a non-cash transaction (Governmental Accounting Standards treatment) of the insurance provider subsidy for possible future retirement insurance benefits (other post-employment benefits obligation). This is not a legal liability of the Port and is a GASB accounting treatment that requires governments to record a liability and a related expense that the governments have already paid in the monthly insurance premium that has the pro-rated retirement benefits.

**Debt:** The Port retired all its debt in May of 2014.

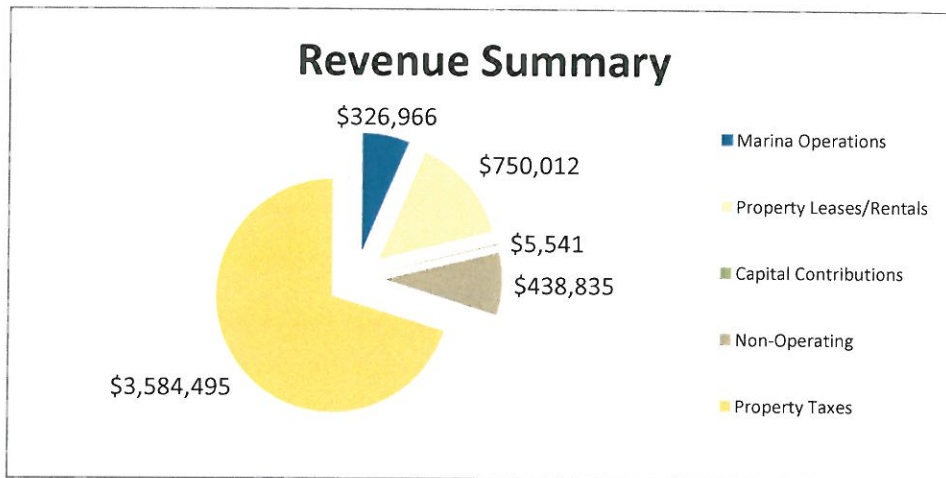
**Net Position:** The Port's net position increased by approximately \$1.2 million in 2014, which represents a healthy organization.

### **Financial Operating Highlights Summary**

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

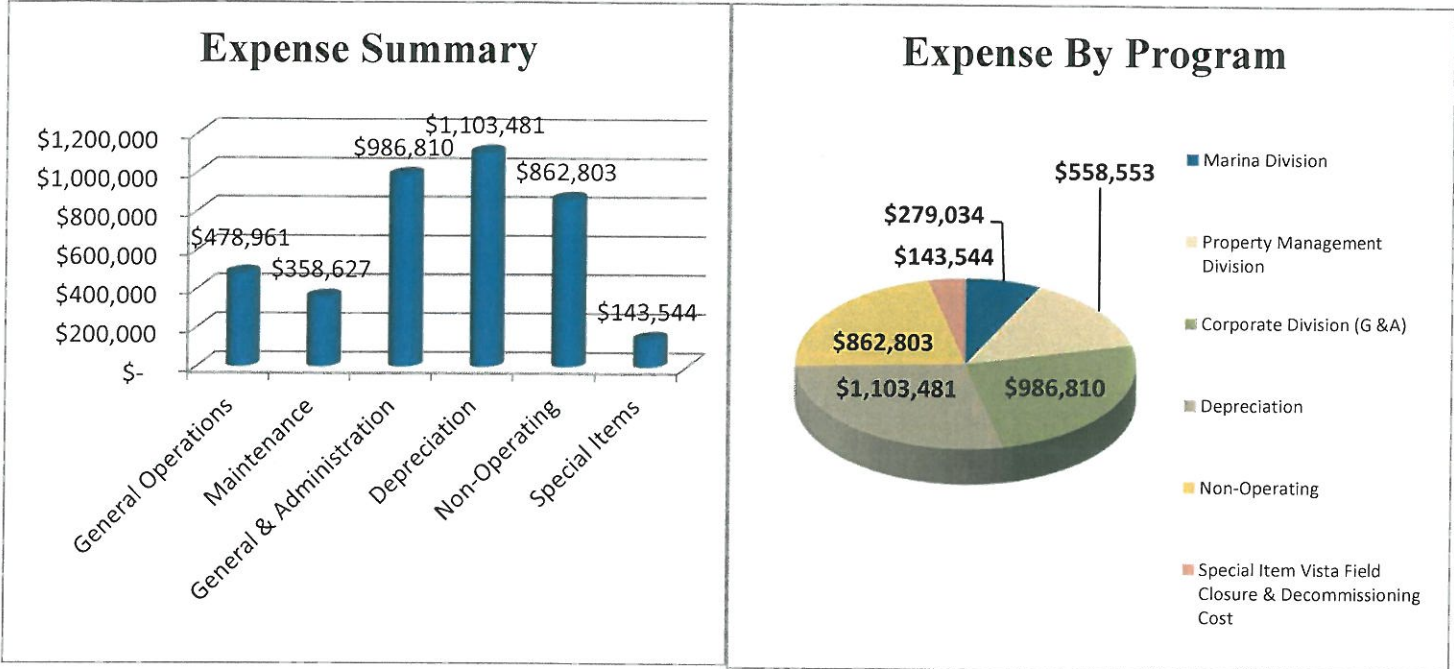
Statement of Revenues, Expenses, and Changes in Net Position		
	2014	2013
Operating Revenues	1,076,978	1,083,079
Operating Expenses before depreciation	1,824,398	1,697,220
<b>Total operating loss before depreciation</b>	<b>(747,420)</b>	<b>(614,141)</b>
Depreciation	1,103,481	1,226,248
<b>Total operating loss after depreciation</b>	<b>(1,850,901)</b>	<b>(1,840,389)</b>
Non-operating revenues (expenses)	(423,968)	(804,102)
Ad valorem tax revenues	3,584,495	3,412,206
Total non-operating revenues (expenses)	3,160,527	2,608,104
<b>Increase in net position, before capital contributions</b>	<b>1,309,626</b>	<b>767,715</b>
Capital contributions	5,541	56,024
<b>Increase in net position, before special items</b>	<b>1,315,167</b>	<b>823,739</b>
Special items	(143,544)	(2,260,252)
Net position at beginning of year	50,902,291	52,338,804
<b>Net position at end of year</b>	<b>52,073,914</b>	<b>50,902,291</b>

**Operating Revenues:** 2014 operating revenues amounted to approximately \$1.1 million.



**Operating Expenses:** 2014 operating expenses before depreciation amounted to \$1.8 million.





**PORT OUTLOOK AND ECONOMIC FACTORS**

March 6, 2015 marked the Port of Kennewick’s 100<sup>th</sup> anniversary. When the Port was formed those many years ago, it was truly a game changer for the local community. That citizen vote created an economic development agency focused on protecting and enabling commerce. Over the years, Port of Kennewick established a proven history of promoting industry, fostering jobs, building infrastructure, and making investments to address evolving community needs.

Now, we are charting the future of Vista Field—working to in-fill the land and establish a walkable, bikeable, commercially robust, residentially diverse, culturally rich, and sustainable regional town center. And we are fostering a renaissance of Kennewick’s historic waterfronts—shifting from tired industrial neighborhoods to vibrant, tourism-focused destinations.

Indeed, few other projects have the same potential to shape the future of our community as significantly as the Port’s Vista Field and waterfront redevelopment projects at Clover Island and Columbia Drive.

**Vista Field—A Regional Town Center**

One of the largest projects the Port has undertaken is redevelopment of the former Vista Field airport. The 103-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.

In 2014, following closure of the Vista Field airport, City of Kennewick re-zoned the site to commercial regional; and a citizen committee chose Duany Plater-Zyberk (DPZ)—an internationally acclaimed, urban design firm—to prepare the redevelopment plan. A pattern-language and charrette process was used; with

*nearly three-hundred people* involved in a week-long series of meetings and providing comments in an inclusive, citizen-driven endeavor.

In 2015 DPZ will take the community's input and prepare a long-term plan that will transform the vacant land into a regional town center. During the Vista Field charrette process, the community identified small-scaled City blocks with open spaces; transit-oriented, pedestrian-friendly neighborhoods; and a mix of locally unique shops, restaurants and work spaces—as critical elements. Access, connectivity, limited Port resources, and leveraging partnerships were identified as essential considerations for success. DPZ has shared a draft Vista Field Charrette Report that includes public comment; and will finalize a master plan for commissioners' review and approval in 2015.

At this point, the specific future revenues from site redevelopment are difficult to forecast, but it is expected that a project of this magnitude will have an extremely large 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.

## **Transforming Neighborhoods**

### ***Clover Island***

In 2015, the Port will improve security gates at the Clover Island Marina docks; replace the in-water ramps, pave parking, construct a public restroom, add artwork, landscaping, and a scenic overlook to the Clover Island boat launch. The Port will also construct a pedestrian boardwalk/sidewalk on the marina (south) side of the island extending the waterfront walkway between the Port's office and the Clover Island Yacht Club buildings. In addition, a bronze artwork honoring the Confederated Tribes of the Umatilla Indian Reservation's historic ties to this area will be installed; along with a shade structure featuring four interpretive display panels. The Port is also working in partnership with the U.S. Army Corps of Engineers to determine requirements for making additional riparian shoreline and recreational enhancements. The full annual benefit to the Port and taxpayers will not be available until the shoreline planning is complete. However, three new businesses and thirty (30) new jobs have located on Clover Island since the Port began investing in island infrastructure and shoreline enhancements—undoubtedly more jobs and more businesses will follow as the remaining shoreline is stabilized and revegetated, and the public Riverwalk is completed.

### ***Columbia Gardens***

Immediately adjacent to Columbia Drive 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.

In 2013, the Port and City of Kennewick signed an Interlocal agreement to provide \$1.3 million each in infrastructure improvements for Columbia Gardens Urban Wine Village. The Port removed dilapidated Columbia Drive buildings, and then cleared and prepared the site for construction of the phase one buildings. In 2015, the City will extend the riverside trail along Duffy's Pond, and add landscaping and a winery wastewater treatment system to accommodate boutique wine production within City limits. Investing in basic

infrastructure will allow new-start or small production wineries to connect directly to City sewer and have access to fire service, creating a competitive advantage for Kennewick's historic waterfront.

The City's trail extension will be completed in June 2015. Following trail completion, the Port will construct and lease three wine-related buildings. In future phases, the Port and City will in-fill the remaining Columbia Garden site with additional boutique production, tasting rooms, and artisan and specialty development spaces. The Port will bid the first three buildings in 2015, with plans to accommodate wineries for crush 2016.

The financial, economic and community impacts of revitalizing the Columbia Gardens/Willows waterfront are projected to have positive returns to both the Port and City, and their taxpayers. The phase 1 wine village has already garnered tremendous interest, including letters of interest from established wineries anxious to relocate or expand to the waterfront. However, full projections regarding annual Port revenues will not be available until planning is complete for future phases of Columbia Gardens; as well as The Willows and Cable Greens redevelopment sites.

### ***West Richland***

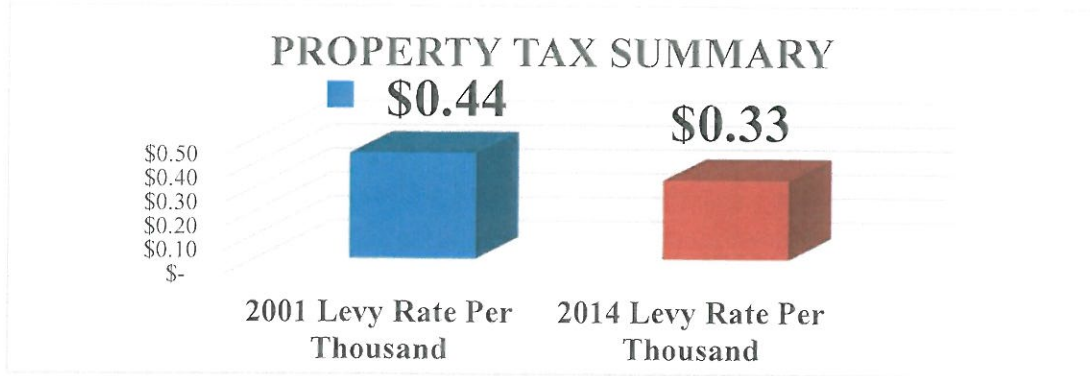
The Port supported the City of West Richland's efforts to expand their Urban Growth Area (UGA) boundary to accommodate industrial development on 92-acres of Port-owned land. The property is located off Highway 224 and Keene Road and includes the former Tri-City Raceway site. The UGA expansion was approved in December 2014; prompting the City and Port to begin annexation of the Port's site into the City limits to allow extension of City utilities. The Port and City are working together to master plan the site, which is envisioned as an industrial hub supporting the region's rapidly growing wine industry. The City of West Richland is also planning to construct a large-scale wine-effluent treatment facility to accommodate large-volume wine production, expand capacities, and offer support services to the adjacent, internationally-renowned Red Mountain AVA.

### **Challenges & Opportunities**

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

Yet, the Port remains mindful that we are stewards of the public trust. We will exercise careful planning; giving diligent consideration to future projects, so that an overextension of resources and commitments does not preclude doing quality work for district taxpayers.

**Tax Levy:** Over the years, the Port of Kennewick has worked to minimize the Port's property tax levy. We strive to keep the Port levy low. Our goal is to be able to offset operational costs and future economic development opportunities with revenue from tenants or developers while keeping tax revenue well below our taxing authority. With those goals in mind, the Port's levy rate has decreased from \$0.44 in 2001 to \$0.33 in 2014 which is a 25% decrease. The difference in potential tax revenue between the 2014 year levy amount and the \$.45 legal limit is just over \$1 million.



A \$200 thousand house cost \$88 in Port property taxes in 2001; and just \$66 in 2014. 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 website at [www.Portofkennewick.org](http://www.Portofkennewick.org) or contact: Chief Financial Officer, 350 Clover Island Drive, Suite 200, Kennewick, WA 99336; Telephone (509) 586-7978; Fax (509) 582-7678.



Port of Kennewick

STATEMENT OF NET POSITION\*  
December 31, 2014

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$	10,802,849
Taxes receivable		92,486
Other receivables (net)		20,107
Prepaid expenses		93,432
Current portion of notes and interest receivable		60,341
<b>Total current assets</b>	<b>\$</b>	<b>11,069,215</b>

**Noncurrent Assets:**

Noncurrent portion of notes receivable		28,065
Capital assets		
Capital assets not being depreciated:		
Land		12,281,229
Construction in progress		2,140,692
Capital assets being depreciated:		
Improvements to land		7,944,655
Buildings		27,315,783
Equipment		1,037,110
Less: accumulated depreciation		(9,203,699)
Total capital assets (net)		41,515,770
<b>Total noncurrent assets</b>	<b>\$</b>	<b>41,543,835</b>

**TOTAL ASSETS** **\$ 52,613,050**

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



Port of Kennewick

STATEMENT OF NET POSITION\*  
December 31, 2014

<b><u>LIABILITIES</u></b>			
<b>Current Liabilities:</b>			
	Warrants payable	\$	218,553
	Compensated absences		133,381
	Retainage payable under construction contracts		8,714
	Current portion of unearned revenue		17,427
	Lease securities payable		48,509
	<b>Total current liabilities</b>		<b>426,584</b>
<b>Noncurrent Liabilities:</b>			
	Other post-employment benefits obligation		112,552
	<b>Total noncurrent liabilities</b>		<b>112,552</b>
<b>TOTAL LIABILITIES</b>		\$	<b>539,136</b>
<b>NET POSITION</b>			
	Net investment in capital assets		41,442,019
	Unrestricted		10,631,895
<b>TOTAL NET POSITION</b>		\$	<b>52,073,914</b>

\*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, 2014

**OPERATING REVENUE**

Property lease/rental operations	\$ 750,012
Marina operations	326,966
<b>Total operating revenues</b>	<u>1,076,978</u>

**OPERATING EXPENSES**

General operations	478,961
Maintenance	358,627
General and administration	986,810
<b>Total before depreciation</b>	<u>1,824,398</u>
Depreciation	1,103,481
<b>Total operating expenses</b>	<u>2,927,879</u>

**Operating loss** (1,850,901)

**NONOPERATING REVENUES (EXPENSES)**

Taxes levied for general purposes	3,584,495
Interest income	14,427
Gain on disposition of assets	359,072
Other nonoperating revenues	65,336
Real estate division expenses	(45,783)
Economic development division expenses	(269,003)
Public, election, OPEB & governmental relations expenses	(548,016)
<b>Total nonoperating revenues (expenses)</b>	<u>3,160,527</u>

**Income before other revenues, expenses, gains and losses** 1,309,626

Capital contributions	5,541
Special item(s)	(143,544)
<b>Increase in net position</b>	<u>1,171,623</u>

Net position - beginning of year 50,902,291

Net position - end of year \$ 52,073,914

\*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, 2014

**Business-Type Activities**

<b>CASH FLOWS from OPERATING ACTIVITIES</b>	<b>2014</b>
Receipts from customers	\$ 1,095,612
Payments to suppliers	(901,567)
Payments to employees	(934,724)
<b>Net cash used by operating activities</b>	<u>(740,679)</u>
<b>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</b>	
Non-capital property taxes received	1,388,798
Non-operating receipts	65,344
Non-operating expenses	(796,623)
Special item expenses	(143,544)
<b>Net cash provided by noncapital financing activities</b>	<u>513,975</u>
<b>CASH FLOWS from CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital property taxes received	2,205,230
Proceeds from sale of capital assets	998,681
Principal paid on capital debt	(302,912)
Payments received on capital debt	31,667
Purchases of capital assets	(2,145,469)
Capital contributions	5,541
<b>Net cash used by capital and related financing activities</b>	<u>792,738</u>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>	
Interest and dividends on investments	22,328
Proceeds from contract installments	24,978
<b>Net cash provided by investing activities</b>	<u>47,306</u>
<b>Net decrease in cash and cash equivalents</b>	613,340
<b>Balances - beginning of the year</b>	10,189,509
<b>Balances - end of the year</b>	<u>\$ 10,802,849</u>

\*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, 2014**

Operating loss	\$	(1,850,901)
<i>Adjustments to reconcile operating loss to net cash used by operating activities:</i>		
Depreciation expense		1,103,481
<i>Changes in assets and liabilities</i>		
Accounts receivable (net)		11,913
Prepayments		(30,744)
Customer deposits payable		6,662
Warrants payable		7,840
Compensated absences		11,071
<b>Net cash used by operating activities</b>	<b>\$</b>	<b><u>(740,679)</u></b>

**Non-Cash Investing, Capital, and Financing Activities:**

**OPEB Liability**

The noncash portion of these transactions is as follows:

OPEB Liability	\$	66,180
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\*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, 2014

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

The Port of Kennewick (the “Port”) was formed by citizen vote March 6, 1915 and incorporated on April 12, 1915. The Port operates under the laws of the State of Washington applicable to public Port districts. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

#### A. Reporting Entity

The Port is a special purpose government and provides marina 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. The Port has no component units.

#### B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included in the statement of net position (or balance sheet). The reported fund position is segregated into net investment in capital assets, restricted, and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents the operating, noncapital financing, capital and related financing, and investing activities.

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

The Port distinguishes between operating revenues and expenses from 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 Marine Division and the Property Management Division.



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

The Port uses a cost allocation methodology and plan to allocate the Port's staffing and indirect costs to the Port's various properties, operations, capital (except indirect cost which is not allocated to capital assets) and non-operating divisions. The Corporate Division allocates its general and administrative expenses according to the direct level of services they provide to the divisions; however, a majority of their function is to support all operations, 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 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 Marine and Property Management Divisions.

Non-operating costs are expenses incurred by activities not related to the 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 Marine, and Property Management Divisions; other post-employment benefits (which are defined as an accounting liability by the Governmental Accounting Standards Board and are not a legal liability that the Port is required to contribute in the future) and other costs that do not currently impact or improve the Marine, and Property Management Divisions and/or costs that do not meet the capitalization requirements per Governmental Accounting Standards. The definition of operating cost is for accounting purposes only (not to be used for legal definitions and includes but is not limited to bond and debt issuance).

The Economic Development & Planning Division plans and delivers projects as well as provides technical and contracting services in support of the business plans and infrastructure needs of the Port. This division supports all the Port capital assets to be acquired or constructed. As defined by Governmental Accounting Standards, not all Economic Development & Planning Division costs can be capitalized such as indirect costs (e.g. paper supplies, utilities associated with the Port Office Building, and miscellaneous office supplies). The above mentioned costs are located in the 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. The Real Estate Division also markets Port properties for sale, and provides technical and contracting services in support of the business plans and infrastructure needs of the Port. The associated staffing and indirect costs related to the Real Estate Division are located within the expenses of this division as 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, 2014, the Benton County Treasurer held \$10,787,849 in short-term residual investments of surplus cash as discussed in Note 5, *Deposits and Investments*. At December 31, 2014, the Port also had \$15,000 in a petty cash accounts held in 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 13, *Property Tax*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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

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

d. Inventories

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

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

f. Other Assets, Debts, or Liabilities

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

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

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

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 2013 and the Port does not have any amount required to be reported as deferred outflows/inflows of resources as of December 31, 2014.

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 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 8, *Long-Term Debt*.

## **NOTE 2 – CAPITAL ASSETS AND DEPRECIATION**

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

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

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purpose for which the assets were acquired, and has included such assets within the applicable account.

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

The Port's policy is to capitalize all asset additions greater than \$1,000 with an estimated life of more than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 1 to 50 years. The Port reorganized the asset categories and relocated some equipment and improvements in 2014 that were associated with Port buildings to the building category, which is allowed by GAAP.

- B. As of December 31, 2014, the Port did not have any impaired capital assets except the Port Commission voted in 2013 to discontinue an operating capital asset as disclosed in Note 6, *Extraordinary and/or Special Items*.



C. Capital asset activity for the year ended December 31, 2014 was as follows:

	<b>Balance at January 1</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at December 31</b>
<b>Capital Assets, not Depreciated:</b>				
Land	\$ 12,833,945	\$ 14,865	\$567,581	12,281,229
Construction in Progress	990,500	1,203,500	53,308	2,140,692
<b>Total Capital Assets, not Depreciated</b>	<b>13,824,445</b>	<b>1,218,365</b>	<b>620,889</b>	<b>14,421,921</b>
<b>Capital Assets, Depreciated:</b>				
Buildings	26,432,015	883,768	-	27,315,783
Improvements Other Than Buildings	8,041,872	37,443	134,660	7,944,655
Machinery and Equipment	997,204	67,429	27,523	1,037,111
<b>Total Capital Assets, Depreciated</b>	<b>35,471,091</b>	<b>988,640</b>	<b>162,183</b>	<b>36,297,547</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	5,206,167	617,884	-	5,824,051
Improvements Other Than Buildings	2,398,042	436,984	82,205	2,752,822
Machinery and Equipment	585,323	51,434	9,930	626,827
<b>Total Accumulated Depreciation</b>	<b>8,189,532</b>	<b>1,106,302</b>	<b>92,135</b>	<b>9,203,700</b>
<b>Total Capital Assets Depreciated (net)</b>	<b>27,281,559</b>	<b>(117,662)</b>	<b>70,048</b>	<b>27,093,849</b>
<b>Total Capital Assets, Depreciated and Not Depreciated, (net)</b>	<b>\$ 41,106,004</b>	<b>\$ 1,100,703</b>	<b>\$ 690,937</b>	<b>\$ 41,515,770</b>

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

The Port had no active construction projects as of December 31, 2014. 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:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Vista Field Redevelopment	\$ 207,258	\$ 277,642
Vista Field Development Facility Building Improvements	\$ 25,950	\$ 724,050
CTUIR Heritage Artwork	\$ 62,000	\$ 28,485
Village at Island Harbor	\$ 2,760	\$ 72,540
Columbia Gardens Redevelopment & 211 E Columbia Drive Building	\$ 269,179	\$ 1,030,821
West Richland Raceway Interlocal	\$ 55,699	\$ 44,301
Clover Island Boat Parking & Restroom (does not include grant)	\$ 59,905	\$ 297,313
<b>Total</b>	<b>\$ 682,751</b>	<b>\$ 2,475,152</b>



Of the committed balance of just under \$2.5 million, 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 8, *Long-Term Debt*, the Port has paid all long-term debts in full.

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

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

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

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 million and \$1.3 million on Phase 1 of the Columbia Gardens project while the City agrees to spend up to \$1.3 million on specific agreed-upon City infrastructure improvements. This joint project would construct improvements at 421 Columbia Drive for wine-related activities, including production, storage, distribution, and sales (including tasting room) and other compatible uses; 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. 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 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 2014 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, 2014 since all of the Port's deposits are within the Benton County TIP and can be cashed out in their entirety daily or with a ten (10) day notice if over \$10 million as per the Investment Service Agreement.

Custodian Risk. Custodial risk for deposits and investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its deposits and investment or collateral securities that are in the possession of an outside party. The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institutions collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Benton County Treasurers policy dictates that all deposits and investment instruments other than 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, 2014 are as follows:

<b>Deposit</b>	<b>Maturity</b>	<b>Fair Value of Port of Kennewick's Own Investments</b>	<b>Fair Value of Deposits held by Benton County Treasurer as an agent (<i>ex officio</i> Treasurer) for the Port of Kennewick</b>	<b>Total</b>
Benton County Investment Pool	Daily	\$0.00	\$10,787,849	\$10,787,849
Total		\$0.00	\$10,787,849	\$10,787,849

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

## B. Investments

Investments with maturities of more than three months are classified on the Statement of Net Position as investments. The Port had no investments and no insured or collateralized investments with maturities of more than three months as of December 31, 2014 since all of the Port's deposits are within the Benton County TIP and can be cashed out in their entirety daily or with a ten (10) day notice if over \$10 million as per the Investment Service Agreement.

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

The Port had one significant special item in 2014 subject to management's control where there was disposal of operating assets and the decommissioning activities from that disposal are ongoing.

In 2013, the Port conducted a Planning, Environmental and Economic Analysis with a public-input process on the future of the Vista Field airport and it was determined in 2013 by the Port Commission the highest and best use for the Port and community as a whole was to close the Vista Field airport and redevelop the approximate 103-acre property. The Vista Field airport was estimated to average an annual loss of \$390,144 per year, with very little economic benefit to the area and just over 4,000 annual operations (approximately 11 flights, counting both landing and take-off as a separate operation, each day). At 5:00 p.m. on December 31, 2013 the Port closed Vista Field airport for the purpose of enhancing the area for a long-term redevelopment project that will benefit the community as a whole, while cutting Port losses, and potentially increasing revenues through future land sales and/or property rental operations. As a result of this closure, the Port recognizes ongoing decommissioning cost of Vista Field airport as required by Governmental Accounting Standards Statement No. 69. The Port's ongoing decommissioning and closure costs will continue as planning permits (e.g. demolition of buildings, runway, tank removals, and a purchase of a hanger as described in Note 4, *Contingencies and Litigations*). The 2014 ongoing decommissioning activities included hangar and tank demolition, asbestos assessment, runway closure markings, and signage removal, for a total cost of \$143,544 January 1, 2014 through December 31, 2014.

## **NOTE 7 – LEASES**

As of December 31, 2014, 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 16 non-cancellable lease arrangements ranging in monthly payments between \$150 and \$12,000 with either fixed, 1% to 3%, or Consumer Price Index rent escalation clauses. Nine 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 has calculated the minimum future lease rental income on non-cancellable operating leases through their lease terms and with the optional extensions. On leases with optional extensions the Port included the extension periods if it is a land lease with significant improvements (e.g. building) or the Port has reason to believe the tenant will renew (e.g. long history with the Port).

The Port’s minimum future lease rental income on non-cancellable operating lease terms remaining in excess of one year are as follows:

Years Ending December 31	
2015	\$ 614,075
2016	\$ 591,832
2017	\$ 408,389
2018	\$ 215,242
2019	\$ 217,190
Thereafter	\$ 6,360,464
<b>TOTAL</b>	<b>\$ 8,407,192</b>

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

**NOTE 8 – LONG-TERM DEBT**

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

As of December 31, 2014, 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, 2014, the Port of Kennewick had no debt or notes payable. The Port paid in full the Washington State Community Economic Revitalization Board (CERB) and the Washington State Department of Transportation (WSDOT) grant repayment agreement stemmed from closure of Vista Field Airport, in order to help stimulate other priority economic development projects.

The accompanying Schedule 09 – Schedule of Liabilities provides a listing of the outstanding Port debt and summarizes debt transactions for 2014. Debt service requirements are as follows:

Debt	Principal Beginning Balance - Short Term Amount (due within one year) 1/1/14	Principal Beginning Balance - Long Term Amount 1/1/14	Issued Short-Term Debt Amount (due within one year)	Issued Long-Term Debt Amount	Redeemed Amount	Interest	Total or Ending Balance 12/31/14
CERB	\$ 31,666	\$ 31,667	\$ -	\$ -	\$ 63,333	\$ -	\$ (0)
WSDOT	119,789	119,789	-	-	239,578	-	(0)
<b>Total</b>	<b>\$ 151,455</b>	<b>\$ 151,456</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 302,911</b>	<b>\$ -</b>	<b>\$ (0)</b>

## **NOTE 9 – OTHER DISCLOSURES**

Intergovernmental programs where the Port entered into three interlocal agreements with jurisdictional partners are 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 several real estate land sales that were deemed no longer needed for Port purposes in accordance with the Port's Comprehensive Scheme of Development and included the following:

- Finley land of 5.8 acres of land for \$105 thousand with an associated recognized gain on land sale of just over \$8 thousand.
- Finley Land of 144 acres for just over \$563 thousand with a gain on land sale of just over \$145 thousand.
- Plymouth land of 94 acres for \$265 thousand with a gain on land sale of just under \$197 thousand.
- Twin Tracks land of 12.7 acres for just under \$74 thousand with a gain on land sale of just under \$2 thousand.

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

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

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



## A. Plan Description

Other Post-Employment Benefits (OPEB) are benefits to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, dental, life, vision, disability, and long-term care insurance. The Public Employees Benefits Board (PEBB), the Port's substantive plan carrier, offers retirees access to all these benefits through PEBB. However, the Port provides only monetary assistance, or subsidies, for medical, prescription drug, life, and vision insurance. Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

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

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

## B. Subsidies

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

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

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

Before 2007, these subsidies were not projected and accounted for under the accrual basis accounting. Accrual accounting is meant to match the timing between when something occurs and when it is accounted for. In this case, it is meant to match the expense to the year in which the benefits are earned by the member.

C. Funding Policy

Pay-as-you-go funding occurs when an employer chooses to contribute (pay) for benefits only when they occur or become due (after retirement). Before 2007, this cost was expensed as the Port paid the current year's subsidies. However, the unfunded liability, which is the difference between what the Port accrues (assuming on-going future payments) and what the Port currently pays, was not accounted for under the pay-as-you-go method.

GASB Statements No. 43 and No. 45 were created in an attempt to:

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

The Port funds the implicit and explicit subsidies on a pay-as-you-go basis, meaning that Port pays these costs as they occur or become due. The Port's cost-sharing policy on the medical premiums is to pay 100% of the PEBB medical plan for employees as described in A. Plan Description above and 100% of the premiums up to 90 days after termination or retirement.

D. Annual OPEB Cost and Net OPEB Obligation

The Port's annual OPEB cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years as of January 1, 2009. The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB. The net OPEB obligation of \$112,551 is included as a noncurrent liability in the Statement of Net Position.

<b>Determination of Annual Required Contribution:</b>	<b>Ending 12/31/14</b>	<b>Ending 12/31/13</b>
Normal Cost at Year End	\$55,801	\$35,190
Amortization of Unfunded Actuarial Accrued Liability	13,037	12,930
Annual Required Contribution	\$68,838	\$48,120
<b>Determination of Annual OPEB Cost:</b>		
Annual Required Contribution	\$68,838	\$48,120
Net OPEB Obligation Interest	1,855	0
Net OPEB Obligation Amortization	(2,682)	0
Annual OPEB COST	\$68,011	\$48,120
<b>Determination of Net OPEB Obligation:</b>		
Starting Net OPEB Obligation	\$46,372	\$ 0
Annual OPEB Cost	68,011	48,120
Contributions	1,832	1,748
Net OPEB Obligation	\$122,551	\$46,372



The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2014 is as follows:

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

E. Funded Status, Funding Progress and Reserves

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money from the trust. If the Port left the PEBB program, the Port would not be able to retrieve the money out of the trust. As of December 31, 2014, the Port does not pre-fund post-retirement medical insurance subsidies. Since the PEBB plan is paid for on a pay-as-you-go basis and was 0% funded, there are no assets to invest. However, currently the Port has sufficient cash and cash equivalents to cover the entire liabilities (if any costs are incurred in the future). If the Port no longer uses PEBB for their medical insurance coverage, under the current Port policy, the Port is not liable for any future cost to retired employees.

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment rate of return, payroll growth rate, and health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

F. Actuarial Methods and Assumptions

The Port used the alternative measurement method permitted under GASB Statement No. 45. Data (e.g., age range, years of service, active age average, etc.) is compiled into the Office of State Actuary GASB No. 45 reporting tool for all active and inactive members to determine the Actuarial Accrued Liability (AAL) and normal cost. The Office of the State Actuary report involves calculations that require assumptions about future economic and demographic events. Consistent with GASB reporting requirements, the Office of the State Actuary assumed a pay-as-you-go funding policy when selecting

the assumed rate of investment return of 4%. General and salary inflation are the same as those used in the June 30, 2013 Actuarial Valuation Report (AVR) issued by the Office of the State Actuary. Cost inflation begins at approximately 8% in 2014 and decreases to an ultimate rate of about 5% in 2093. Participation percentage, percentage of spouses' coverage, and Medicare coverage was determined by the Office of the State Actuary. The average cost of medical plans providing coverage before Medicare eligibility decreased by 7.2%; the average cost for Medicare medical plans increased by 4.3%. Actual medical cost inflation since the last valuation date was lower than the assumed rate of approximately 14.6%. Covered payroll is assumed to grow at 3.75% per year.

Demographic assumptions are the same as those used in the June 30, 2014 AVR, which were developed from the 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 Unfunded Actuarial Accrued Liability (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 2014. The results were based on grouped data with four active groupings and four inactive groupings. The Office of the State Actuary prepared a sensitivity analysis assuming a 0.5% higher and lower investment rate of return for the impact of the Patient Protection and Affordable Care Act (PPACA) excise tax. The excise tax, which does not go into effect until the year 2018, represents approximately 1.1% of all liabilities.

The Health Care Authority and the Department of Retirement Systems provided the member data used in the Office of the State Actuary report. The census date is reported as of June 30, 2014, and was projected forward to match the open enrollment medical plan choices as of January 1, 2014. 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, 2014 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 UAAL is amortized over a closed 30-year period as a level percent of payroll. There are no asset valuation methods since there are no assets invested in an irrevocable, dedicated, and projected trust. The AAL and the Net OPEB Obligations (NOO) are amortized as a percentage of payroll over an open 30-year period. These methods, assumptions, and calculations are individually and collectively reasonable for the purposes of this valuation.

#### **NOTE 11 – PENSION PLANS**

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 (DRS), under the cost-sharing, multiple-employer, public employee defined benefit retirement plans. The DRS, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) which 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](http://www.drs.wa.gov).

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

### **Plan Description**

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49% 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 5.5% 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% 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% 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% 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% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% 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 ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% 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% 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, 2013:

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

**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 Judicial Benefit Multiplier 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, 2014, are as follows:

Members Not Participating in JBM:

	<i>PERS Plan 1</i>	<i>PERS Plan 2</i>	<i>PERS Plan 3</i>
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:

	<i>PERS Plan 1</i>	<i>PERS Plan 2</i>	<i>PERS Plan 3</i>
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:

	<i>PERS Plan 2</i>	<i>PERS Plan 3</i>
2014	\$74,136	\$6,364
2013	\$61,884	\$3,037
2012	\$55,953	\$-0-

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

In August of 2009, the Port of Kennewick entered into an interlocal agreement with the City of Kennewick establishing a Local Revitalization 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 13 – PROPERTY TAX**

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

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

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

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

The Port’s regular tax levy for 2014 was \$0.33 per \$1,000 on an assessed valuation of \$10,652,419 for a total regular tax levy of \$3,554,923. In 2013, the regular tax levy was \$3,395,879.

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

**NOTE 14 – RISK MANAGEMENT**

Port of Kennewick is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program.



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

The program acquires liability insurance through an 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 \$3,259,396 to cap the total claims paid by the program in any one policy term.

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

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

Members contract to remain in the pool for a minimum of one year, and must give notice before 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. On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1, to December 1 beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year began on December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members/brokers with Canfield, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ended December 1, 2014, were \$1,817,655.

The Port of Kennewick had no material claims in 2014 and had no material claims paid out in 2014.

Port of Kennewick has chosen to be self-insured for unemployment insurance purposes. The Port had no claims during 2014 and no unemployment claims are outstanding as of December 31, 2014. The Port has sufficient unrestricted cash as disclosed in Note 5, *Deposits and Investments* to pay any future claims if incurred.

**NOTE 15 – SUBSEQUENT EVENTS**

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

Port of Kennewick

MCAG No. 1699

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

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

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

Board of Commissioners  
Port of Kennewick  
Kennewick, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Port of Kennewick, as of and for the year ended December 31, 2014, 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 November 5, 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**

Yakima, Washington  
November 5, 2015

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 01  
Revenues and Expense\***

**For the Year Ended December 31, 2014**

<b>Account Code</b>	<b>Account Title</b>	<b>Amount</b>
62100	Marina User Charges	\$ 326,966
65200	Capital Contributions	5,541
66400	Real Property Rental Revenues	750,012
69920	Ad Valorem (Property) Taxes	3,584,495
69990	Nonoperating Revenues	438,834
72100	Marina Operations	194,993
72300	Marina Maintenance	84,042
76100	Property Leases/Rental Operations	283,968
76300	Property Leases/Rental Maintenance	274,585
78100	Corporate Division (G&A)	986,810
76700	Depreciation	1,103,481
79900	Nonoperating Expenses	862,803
79999	Special Items	\$ 143,544

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

Port of Kennewick

MCAG No. 1699

Schedule 09  
Schedule of Liabilities\*

For the Year Ended December 31, 2014

Type	ID No.	Description	Date of Original Issue	Date of Maturity	Beginning Balance January 1	Additions	Deletions	Ending Outstanding Balance December 31
GO	259.11	Compensated Absences	N/A	N/A	\$ 122,309	\$ 11,072	\$ -	\$ 133,381
GO	263.61	CERB Capital Improvements	Jun-94	Jan-15	\$ 63,333	\$ -	\$ 63,333	\$ -
GO	263.93	OPEB/Pension Related	Jan-13	N/A	\$ 46,372	\$ 66,180	\$ -	\$ 112,551
GO	263.98	WSDOT Grant Repayment	Sep-13	Jun-15	239,578	\$ -	239,578	\$ -
<b>Total Liabilities</b>			<b>Feb-21</b>	<b>\$ 84,161</b>	<b>\$ 349,283</b>	<b>\$ 77,252</b>	<b>\$ 302,911</b>	<b>\$ 245,932</b>

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

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 15**

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

**For the Year Ended December 31, 2014**

Grantor / Program Title	Identification Number	Current Year Expenditures
Washington State Recreation Conservation Office Grant / Boating Facilities Program	N/A	\$5,541

**\*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, is more than shown.



**Port of Kennewick**

**MCAG No. 1699**

**Schedule 16**

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

**For the Year Ended December 31, 2014**

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

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**Port of Kennewick**

**MCAG No. 1699**

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

**For the Year Ended December 31, 2014**

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

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

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 21**

**Local Government Risk Financing\***

**Property and Liability**

**For the Year Ended December 31, 2014**

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](mailto:kstevens@canfieldsolutions.com)  
Fiscal/Plan Period: January 1, 2014 through December 31, 2014  
Coverage: Joint Property and Liability with 236 members

Port of Kennewick is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program.

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



**Port of Kennewick**

**MCAG No. 1699**

**Schedule 21**

**Local Government Risk Financing\***

**Property and Liability**

**For the Year Ended December 31, 2014**

Program: Unemployment Compensation

Fiscal/Plan Period: January 1, 2014 through December 31, 2014

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, 2014, 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 material claims during 2014, no material claims paid out during 2014, and no unemployment claims are outstanding as of December 31, 2014.

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