

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

**1699**  
MCAG No.

**ANNUAL FINANCIAL REPORT**

Submitted pursuant to RCW 43.09.230

to the

WASHINGTON STATE AUDITOR'S OFFICE

**For the Fiscal Year Ended**  
**December 31, 2016**

Certified correct as of May 15, 2017 to the best of my knowledge and belief:

**PREPARED BY:**

**FINANCE DEPARTMENT**

**TAMMY FINE, CPA, CFE, CGMA**

**TELEPHONE: (509) 586-1186**

**PORT OF KENNEWICK  
ANNUAL FINANCIAL REPORT  
For the Year Ended December 31, 2016**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

List of Commissioners and Employees	2
Letter of Introduction	3

**FINANCIAL SECTION**

Auditors' Opinion Letter	4-5
Management's Discussion and Analysis	6-12
Statement of Net Position	13-14
Statement of Revenues, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16-17
Notes to Financial Statement	18-41

**REQUIRED SUPPLEMENTAL INFORMATION**

Other post-employment benefits schedule of funding progress, and schedules of the Port's proportionate share of net pension liability and contributions.	42-44
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 19 – Labor Relations Consultant(s)	50

# **PORT OF KENNEWICK**

## **ANNUAL FINANCIAL REPORT**

**For the Year Ending December 31, 2016**

### **2016 COMMISSIONERS**

Skip Novakovich	President
Thomas Moak	Vice President
Don Barnes	Secretary

### **2016 PORT OFFICERS/DIRECTORS**

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

### **2016 PORT STAFF**

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

### **MISSION STATEMENT**

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

May 15, 2017

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

Dear Commissioners:

The 2016 Annual Financial Report of the Port of Kennewick (Port) as of and for the year ended December 31, 2016 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



CliftonLarsonAllen

CliftonLarsonAllen LLP  
CLAconnect.com

## 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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Port of Kennewick as of December 31, 2016, and the respective changes in net position and cash flows thereof 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, other post-employment benefits schedule of funding progress, schedule of the port's proportionate share of the net pension liability, and the schedule of the port's contributions on pages listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, 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 solely 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 the effectiveness of the Port of Kennewick's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port of Kennewick's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Yakima, Washington  
December 12, 2017

## **Port of Kennewick**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ended December 31, 2016**

#### **INTRODUCTION**

The following is the Port of Kennewick (Port) Management's Discussion and Analysis (MD&A) of financial activities and the performance for the calendar year ended December 31, 2016, with selected comparative information for the year ended 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial activities of the Port, to identify any significant changes in financial position, and to serve as an introduction to the Port's financial statements.

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

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

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

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

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

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and non-capital 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:

- The Port has no outstanding debt.
- The Port's overall operating revenues in 2016 had a slight decrease of approximately 3% from 2015 while operating expenses before depreciation had a slight decrease of approximately 3%. In 2015 the Port charged utilities through lease agreements and then remitted this to the PUD. In 2016, the Port required the tenants to pay the PUD directly.
- The Port's assets and deferred outflows exceeded its liabilities and deferred inflows at close of calendar year 2016 by just above \$54 million.
- The Port's non-operating revenues over non-operating expenses was nearly \$3.3 million.
- The Port's net position increased by approximately \$1.6 million due to the increase in total revenues over total non-capital expenses.
- 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, 2016. 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, deferred outflows, liabilities, deferred inflows, and net position at December 31, 2016 and 2015 follows:

#### PORT OF KENNEWICK'S Net Position

	<u>2016</u>	<u>2015</u>
Current Assets	\$12,050,292	\$10,932,477
Capital Assets	43,707,698	43,129,378
Deferred Outflows of Resources	209,336	96,955
<b>Total Assets and Deferred Outflows</b>	<b><u>55,967,326</u></b>	<b><u>54,158,810</u></b>
Current liabilities	589,658	597,935
Noncurrent liabilities	1,279,315	929,091
Deferred Inflows of Resources	18,031	113,582
<b>Total Liabilities and Deferred Inflows</b>	<b><u>1,887,004</u></b>	<b><u>1,640,608</u></b>
Net Position		
Invested in capital assets, net of related debt	43,456,335	42,972,961
Unrestricted	10,623,987	9,545,241
<b>Total Net Position</b>	<b><u>\$54,080,322</u></b>	<b><u>\$52,518,202</u></b>

**Capital Assets:** The Port's investment in capital assets (land, buildings, improvements, machinery and equipment, and construction in progress), net of related debt increased by just over \$483 thousand (net of accumulated depreciation). As described in the notes to the financials, the major capital asset events during 2016 included Clover Island boat ramp, public parking and restrooms; Vista Field Development Facility A; Vista Field redevelopment; Columbia Gardens redevelopment; and 1135 Shoreline restoration project.

**Current and Noncurrent Liabilities:** The Port’s noncurrent liabilities consist of two accounting treatments required by Governmental Accounting Standards Board for reporting the Port’s share of Pension liabilities and healthcare cost. The Port’s non-current liabilities increased by \$350 thousand dollars. These are non-cash transactions and are not legal liabilities owed by the Port to any third party.

The Port’s current liabilities consist of warrants and retainage payable that cleared in 2017, employee accrued paid time off (compensated absences), lease securities payable, and prepaid rents (unearned revenue).

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

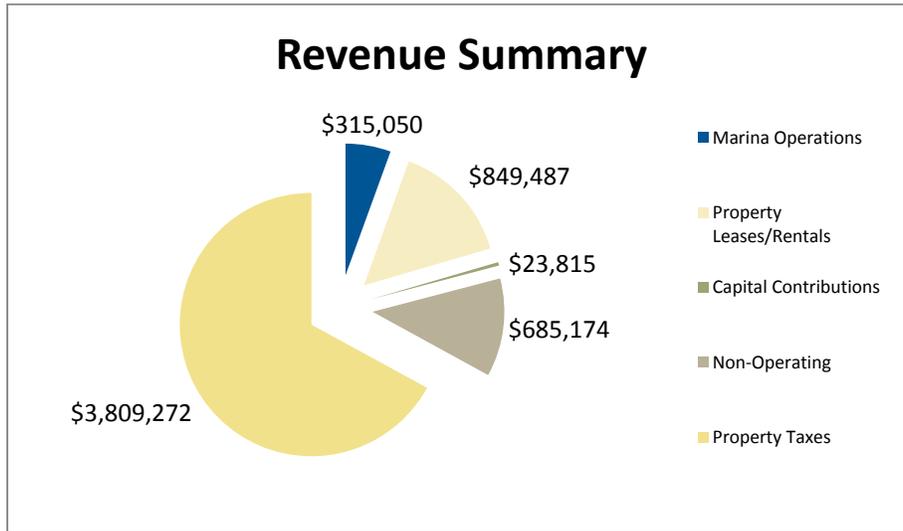
**Net Position:** The Port’s net position increase is approximately \$1.6 million in 2016, which represents a healthy organization.

### Financial Operating Highlights Summary

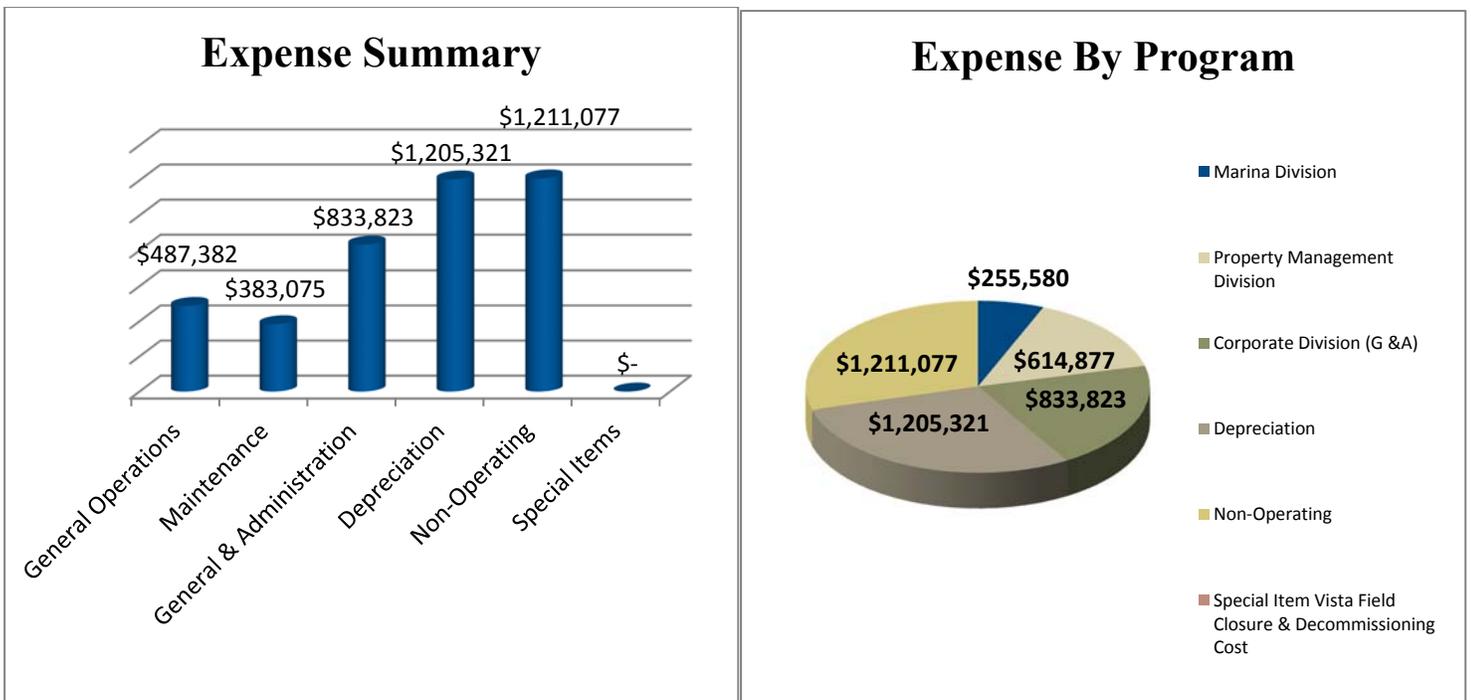
The following condensed financial information summarizes the Port’s revenues, expenses, and changes in net position:

<b>PORT OF KENNEWICK'S</b>		
<b>Statements of Revenues, Expenses and Change in Net Position</b>		
	<b>2016</b>	<b>2015</b>
Operating Revenues	\$ 1,164,537	\$ 1,197,824
Operating expenses before depreciation	1,704,280	1,749,319
<b>Total operating loss before depreciation</b>	<b>(539,743)</b>	<b>(551,495)</b>
Depreciation	1,205,321	1,136,768
<b>Total operating loss after depreciation</b>	<b>(1,745,064)</b>	<b>(1,688,263)</b>
Non-operating revenues (expenses)	(525,903)	(958,876)
Ad valorem tax revenues	3,809,272	3,669,499
<b>Total non-operating revenues (expenses)</b>	<b>3,283,369</b>	<b>2,710,623</b>
Increase in net position, before capital contribution	<b>1,538,305</b>	<b>1,022,360</b>
Capital contribution	23,815	200,488
Increase in net position (before Special Items)	<b>1,562,120</b>	<b>1,222,848</b>
Special Items	-	(14,627)
Prior period adjustments	-	(763,933)
Net position at beginning of year	52,518,202	52,073,914
<b>Net position at end of year</b>	<b>\$54,080,322</b>	<b>\$52,518,202</b>

**Operating Revenues:** 2016 operating revenues amounted to approximately \$1.2 million.



**Operating Expenses:** 2016 operating expenses before depreciation amounted to \$1.7 million.



## PORT OUTLOOK AND ECONOMIC FACTORS

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

**Revitalizing Kennewick's Historic Waterfront.** On Clover Island, the port continues its efforts to bring vitality to downtown Kennewick by transforming the waterfront. The Port is now partnering with the Army Corps of Engineers to restore additional riparian habitat which benefits endangered fish species, and extend the Clover Island Riverwalk from the Lighthouse Plaza along the island's northern shoreline. To allow the USACE access to the shoreline, the Port contracted for removal of a tired, 1960's-era office building from the island's north corner. The Corps should undertake design work during 2017 and 2018, construction in winter 2018, and completion in spring 2019. Also on Clover Island, the Port went out to bid on a project to construct a walkway connecting the existing sidewalks on the island's harbor side. That project includes an art installation honoring the Confederated Tribes of the Umatilla Indian Reservation's historic ties to Kennewick and will be completed in spring 2017. When finished, these shoreline projects create six new commercial development parcels (two on the island's south side in 2017, and four on the north shoreline in 2019) ready to accommodate private-sector buildings, businesses and jobs.

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

In 2017, the Port will complete construction and then lease the first wine buildings; and the city will construct and manage a winery waste-water, pre-treatment facility. The city-owned/managed waste water system allows boutique winemakers to focus on making wine instead of managing effluent—the city will do that instead. In 2017, the city will complete the streetscape, and the port will install public artworks, including a mural honoring the Latino community's contributions to the region's wine and agricultural industry. Two established and well-known wine-makers (Victor Palencia of Palencia Wine Co., and Bart Fawbush of Bartholomew Winery) have already signed letters of intent to lease the Phase One production/tasting room spaces, as well as the shared barrel-storage facility. And dozens of other businesses have requested information on co-locating wine facilities, artist/maker spaces, and fermentation facilities alongside the wine-related developments. This bodes well for successfully transforming Kennewick's historic waterfront into an enology-focused destination.

And in January, the city and port applied to Benton County, for Rural County Capital Funds (not new taxes, these are sales-taxes already collected by the state and returned to the county for economic development projects), for funding of the interior loop road, parking, lighting, landscaping, water, sewer, storm utilities, and appurtenances to support Columbia Gardens Phase Two; and infrastructure necessary to support Columbia Basin College's proposed Culinary Arts Institute at The Willows as a Phase Three.

The Columbia Basin College Culinary Arts Institute is planned as a 20,000-square-foot, workforce training facility, with two kitchens, classroom and event space, and retail bakery onsite. Along with Columbia Gardens, the CBC Culinary Institute would serve as an anchor to future waterfront development and create a vibrant linkage between the Clover Island and Columbia Gardens improvements.

The intent is to increase downtown visitation, spending, and vitality by connecting a renewed waterfront with historic residential and retail neighborhoods; and to create new opportunities for small businesses.

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

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

Currently the Vista Field Redevelopment master plan is being refined regarding the street network, and commercial, residential, and public spaces. The Port is working to finalize Phase One construction details, and determine a financing package (including the possibility of selling Port-owned land at Southridge). It is anticipated the final master plan will go before both Port Commissioners and City Council for approval in fall 2017, with phase one construction possibly starting as early as spring 2018, and parcels available for private sector development in 2018.

**Richland.** Northwest Orthopaedic and Sports Medicine is completing construction on a 36,000-square-foot medical and office building in the Port’s Spaulding Business Park (a 30-acre professional, medical, and corporate development site). And Port staff are currently in discussions with a potential buyer for the last remaining, port-owned parcel within the Spaulding Business Park. To date, \$37 million in private investment has built 165,000 square feet of buildings, with another 42,000 square feet under construction. Throughout the next several years, the Port will work with the City to identify, support, and/or implement one or more projects that further spur redevelopment efforts in the Richland Island View area.

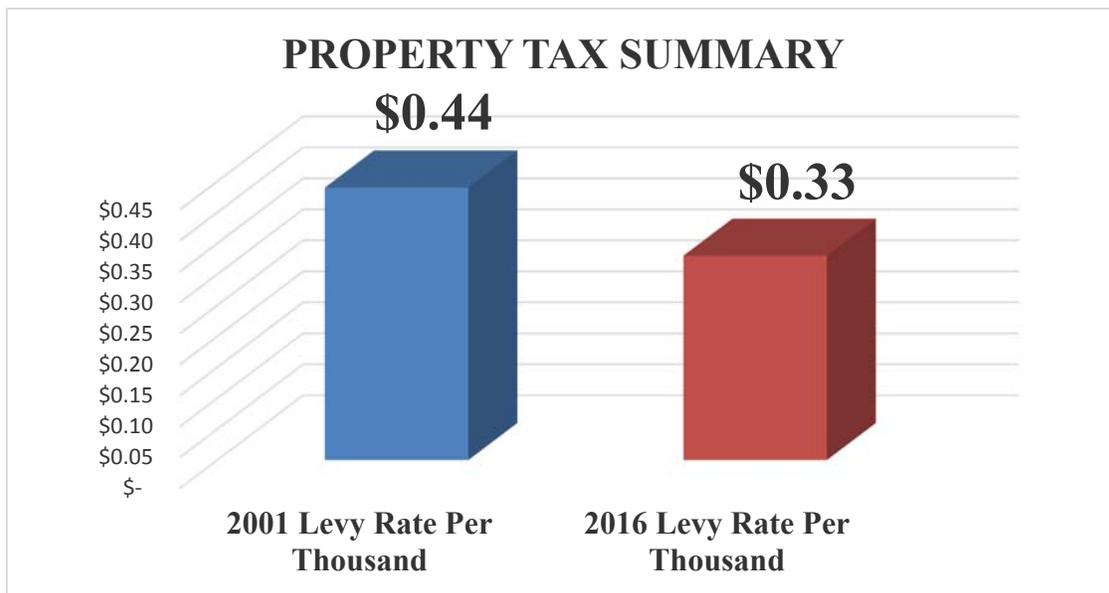
**West Richland.** The Port and the City of West Richland’s efforts include the redevelopment of Port-owned land within the city limits. The City annexed the port land in 2015; a change that allowed for the future extension of city utilities. The Port has completed a master plan for that site, which is envisioned as an industrial hub supporting the region’s rapidly growing wine industry; and is working to remove deed encumbrances from the site.

In addition, the City of West Richland recently completed a large-scale wine-effluent treatment facility to accommodate large-volume wine production, and development of significant amounts of privately-owned land surrounding that utility. Rather than competing with the private sector, the port commission has chosen to use the next four to seven years to “bank” a portion of port funds and use that time to identify a mutually-beneficial joint venture.

**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.

And indeed, in all we do, the port remains mindful that we are stewards of the public’s trust. We will continue to exercise careful planning, give diligent consideration to potential projects, and ensure resources and developments are economically sustainable, delivering a positive return on investment for the communities we serve.

**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 2016 which is a 25% decrease.



A \$200 thousand house cost \$88 in Port property taxes in 2001; and just \$66 in 2016.

**REQUEST FOR INFORMATION**

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

**Port of Kennewick**  
**STATEMENT OF NET POSITION\***  
**December 31, 2016**

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 11,800,060
Taxes receivable	93,326
Other receivables (net)	23,632
Prepaid expenses	133,274
<b>Total current assets</b>	<b>\$ 12,050,292</b>

**Noncurrent Assets:**

Capital assets

Capital assets not being depreciated:

Land	10,959,749
Construction in progress	6,336,662

Capital assets being depreciated:

Improvements to land	9,279,646
Buildings	27,453,807
Equipment	1,098,890

Less: accumulated depreciation	(11,421,056)
--------------------------------	--------------

Total capital assets (net)	43,707,698
----------------------------	------------

<b>Total noncurrent assets</b>	<b>\$ 43,707,698</b>
--------------------------------	----------------------

<b>TOTAL ASSETS</b>	<b>\$ 55,757,990</b>
---------------------	----------------------

**Deferred Outflows of Resources:**

State Pension	209,336
---------------	---------

<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 209,336</b>
---	-------------------

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

**Port of Kennewick**  
**STATEMENT OF NET POSITION\***  
**December 31, 2016**

**LIABILITIES**

**Current Liabilities:**

Warrants payable	\$ 223,055
Compensated absences	195,541
Retainage payable under construction contracts	93,407
Current portion of unearned revenue	16,076
Lease securities payable	61,579
<b>Total current liabilities</b>	<b>589,658</b>

**Noncurrent Liabilities:**

Net port share of state pension liability	1,001,282
Other post-employment benefits liability	278,033
<b>Total noncurrent liabilities</b>	<b>1,279,315</b>

**TOTAL LIABILITIES** \$ 1,868,973

**Deferred Inflow of Resources:**

State Pension	18,031
---------------	--------

**TOTAL DEFERRED INFLOWS OF RESOURCES** \$ 18,031

**NET POSITION**

Net investment in capital assets	43,456,335
Unrestricted	10,623,987

**TOTAL NET POSITION** \$ 54,080,322

\*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, 2016

<b>OPERATING REVENUE</b>	
Property lease/rental operations	\$ 849,487
Marina operations	315,050
<b>Total operating revenues</b>	<b>1,164,537</b>
 <b>OPERATING EXPENSES</b>	
General operations	487,382
Maintenance	383,075
General and administration	833,823
<b>Total before depreciation</b>	<b>1,704,280</b>
Depreciation	1,205,321
<b>Total operating expenses</b>	<b>2,909,601</b>
<b>Operating loss</b>	<b>(1,745,064)</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
Taxes levied for general purposes	3,809,272
Interest income	70,798
Gain or (Loss) on disposition of assets	611,740
Other nonoperating revenues	2,636
Real estate division expenses	(12,287)
Economic development division expenses	(318,924)
Public, election, OPEB, Pension, & governmental relations expenses	(879,866)
<b>Total nonoperating revenues (expenses)</b>	<b>3,283,369</b>
<b>Income before capital contributions</b>	<b>1,538,305</b>
Capital contributions	23,815
<b>Increase in net position</b>	<b>1,562,120</b>
Net position - beginning of year	52,518,202
Net position - end of year	<b>\$ 54,080,322</b>

\*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, 2016

**CASH FLOWS from OPERATING ACTIVITIES**

Receipts from customers	\$ 1,152,839
Payments to suppliers	(855,882)
Payments to employees	(948,493)
<b>Net cash used by operating activities</b>	<u>(651,536)</u>

**CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES**

Non-capital property taxes received	598,528
Non-operating receipts	2,638
Non-operating expenses	(1,068,785)
<b>Net cash provided by noncapital financing activities</b>	<u>(467,619)</u>

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

Capital property taxes received	3,197,827
Proceeds from sale of capital assets	2,020,601
Purchases of capital assets	(3,097,557)
Capital contributions	23,815
<b>Net cash used by capital and related financing activities</b>	<u>2,144,686</u>

**CASH FLOWS from INVESTING ACTIVITIES**

Interest and dividends on investments	70,798
Proceeds from contract installments	29,196
<b>Net cash provided by investing activities</b>	<u>99,994</u>

<b>Net decrease in cash and cash equivalents</b>	1,125,525
<b>Balances - beginning of the year</b>	10,674,535
<b>Balances - end of the year</b>	<u>\$ 11,800,060</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, 2016

Operating loss \$ (1,745,064)

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

Depreciation expense 1,205,321

Changes in assets and liabilities

Accounts receivable (net) (6,929)

Prepayments (1,639)

Customer deposits payable (856)

Warrants payable (113,441)

Compensated absences 14,986

Unearned revenue (3,913)

**Net cash used by operating activities** \$ (651,535)

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

The noncash portion of these transactions are as follows:

Other post-employment benefits liability (GASB 45) \$85,706  
Net pension expense (GASB 68) \$56,586

\*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, 2016

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

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

#### A. Reporting Entity

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

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

#### 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 Special Purpose Districts* in the State of Washington.

The Port statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenue are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

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 the Port 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 the Port 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 or capital.

The Port uses a Cost Allocation Methodology 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 and GASB 68 Pension expenses (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.

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. Capital asset purchases are capitalized and long-term liabilities are accounted for in the statement of net position (or balance sheet).

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. Summary of Significant Accounting Policies (Accounting and Reporting Change)

a. Pension

In 2016, the Port implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (amending GASB Statement No. 68). An Amendment of GASB Statement No. 27 (Issued 06/12). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E. 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, 2016, the Benton County Treasurer held \$11.8 million in short-term residual investments of surplus cash as discussed in Note 5, *Deposits and Investments* held in Washington State approved depository. These amounts are classified on the Statement of Net Position as cash and cash equivalents. Interest on deposits and investments are accounted for on the Statement of Revenues, Expenses, and Changes in Net Position as non-operating revenues.

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. Investments – See Note 5, *Deposits and Investments*.

c. Receivables

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

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

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

d. Inventories

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

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

f. Other Assets, Debts, or Liabilities

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

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

Retainage payable under construction contracts are retainage amounts held and required to be paid upon full legal performance of the contractor. The Port reports the amounts owed to contractors under retainage payable on the Statement of Net Assets 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 accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Port reports a separate section for deferred inflows and outflows of resources.

For the purpose of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deduction from those plans' fiduciary net positions have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. This represents an increase or decrease in net position that applies to future periods. GASB 68 for the Port's portion of the State's pension created \$209,336 deferred outflow and \$18,031 deferred inflow of resources as of December 31, 2016.

h. Compensated Absences

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

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

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

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

Capital assets, which include property, plant and equipment and infrastructure assets (e.g. roads, parking lots, sidewalks, and similar items), are reported in the Statement of Net Position. The Port's policy is to capitalize all assets with an initial, individual cost of \$1,000 or more and an estimated life of more than one year. Such assets are recorded at historical cost (or estimated historical cost, where historical cost is not known) if purchased or constructed. Donated capital assets are recorded at acquisition value (or estimated market value) at the date of donation. Donations by developers (and customers) are recorded at the contract price or donor cost or appraised value.

Cost for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. 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*).

Ongoing major outlays for capital assets and improvements are capitalized under construction in progress (CIP). The Port had no interest expenses in 2016 incurred with construction in progress capital assets.

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 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 costs of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.

As of December 31, 2016, the Port did not have any impaired capital assets except the Port Commission voted in 2013 to discontinue an operating capital assets as disclosed in Note 6, *Extraordinary and/or Special Items*

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

	<b>Beginning Balance January 1</b>	<b>Deletions</b>	<b>Additions (including CIP Move)</b>	<b>Ending Balance December 31</b>
<b>Capital assets, not depreciated:</b>				
Land	\$ 12,281,229	\$1,336,772	15,291	\$ 10,959,749
Construction in progress	4,633,687	1,474,985	3,177,961	6,336,662
<b>Total capital assets, not depreciated</b>	<b>16,914,916</b>	<b>2,811,757</b>	<b>3,193,252</b>	<b>17,296,411</b>
<b>Capital assets, depreciated:</b>				
Buildings	27,426,034	-	27,773	27,453,807
Improvements other than buildings	7,949,552	104,520	1,434,613	9,279,646
Machinery and equipment	1,087,041	-	11,850	1,098,890
<b>Total capital assets, depreciated</b>	<b>36,462,627</b>	<b>104,520</b>	<b>1,474,236</b>	<b>37,832,343</b>
<b>Less accumulated depreciation for:</b>				
Buildings	6,460,130	-	644,422	7,104,552
Improvements other than buildings	3,193,261	32,430	497,963	3,658,794
Machinery and equipment	594,774	-	62,935	657,710
<b>Total accumulated depreciation</b>	<b>10,248,165</b>	<b>32,430</b>	<b>1,205,321</b>	<b>11,421,056</b>
<b>Total capital assets depreciated (net)</b>	<b>\$ 43,129,378</b>	<b>\$2,883,847</b>	<b>\$ 3,462,167</b>	<b>\$ 43,707,698</b>

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

As of December 31, 2016, The Port had the following active construction projects; Clover Island Boat Parking & Restroom, Clover Island Shoreline, and Columbia Gardens Redevelopment. The Port has several projects in planning stages where commitments are under contract with various firms and jurisdictional partners (e.g. City of Kennewick and West Richland).

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

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Vista Field Redevelopment	\$ 141,993	\$ 204,374
Village at Island Harbor (Gathering Place)	\$ 40,556	\$ 461,581
Clover Island Shoreline	\$ 24,078	\$ 212,757
Columbia Gardens Redevelopment	\$ 924,238	\$ 3,363,237
<b>Total</b>	<b>\$ 1,130,865</b>	<b>\$ 4,241,949</b>

Of the committed balance of approximately \$4.2 million, the Port has sufficient funding available to cover all cost as disclosed in Note 5, *Deposits and Investments*.

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

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

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

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

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

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

In April, 2013, the Port Commission voted to close Vista Field Airport effective December 31, 2013. As of the date of this Financial Report, the Port is not aware of any further contingencies related to the closure of Vista Field Airport.

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; an effluent treatment project for the planned development; extending 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 installing high quality streetscape on the north side of East Columbia Drive.

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

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

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

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

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

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

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

Deposits are classified on the Statement of Net Position as cash and cash equivalents. Investments with maturities of more than three months are classified on the Statement of Net Positions as investments. The Port of Kennewick had no investments and no insured or collateralized investments with maturities of

more than three months as of December 31, 2016 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 Treasurer’s 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, 2016 are as follows:

<b>Deposit</b>	<b>Maturity</b>	<b>Fair Value of Port of Kennewick’s Own Investments</b>	<b>Fair Value of the Port of Kennewick Deposits</b>	<b>Total</b>
Benton County Investment Pool	Daily	\$0.00	\$11,785,060	\$11,785,060
Gesa petty cash	Daily	\$0.00	\$15,000	\$15,000
<b>Total</b>		<b>\$0.00</b>	<b>\$11,800,060</b>	<b>\$11,800,060</b>

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

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

**B. Investments**

Investments with maturities of more than three months are classified on the Statement of Net Position as investments. The Port had no investments and no insured or collateralized investments with maturities of more than three months as of December 31, 2016 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**

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). 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*).

## **NOTE 7 – LEASES**

As of December 31, 2016, the Port had no material non-cancellable contracts where the Port leases property as a lessee. The Port has no major customers, representing individually, more than 10 percent of total operating revenues.

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

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

The Port has calculated the minimum future lease rental income on 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:

<b>Years Ending December 31</b>	
2017	\$ 532,372
2018	286,392
2019	252,205
2020	209,592
2021	202,203
Thereafter	5,797,244
<b>TOTAL</b>	<b>\$ 7,280,008</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, 2016, 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, 2016, the Port of Kennewick had no debt or notes payable.

#### **NOTE 9 – OTHER DISCLOSURES**

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

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

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

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

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

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The requirements of this statement are effective in three phases. The Port of Kennewick is a phase 3 government, and was required to adopt this statement for fiscal periods beginning after December 15, 2008. Legally, the Port does

not have a contractual obligation or a policy to maintain and provide its employees with continued medical insurance coverage after termination or retirement. The Public Employees Benefits Board (PEBB) plan document offers a subsidized retirement coverage to its plan participants and the Port can terminate medical insurance with no future obligation or liability to PEBB or its retirees. In order to be in compliance with GASB Statement No. 45 that requires governments to book a liability, an expense, and provide specific note disclosures based on an estimated and potential future cost to cover future retired employees' medical expenses, the Port adopted and implemented this statement in 2014. 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 \$278,033 is included as a noncurrent liability in the Statement of Net Position.

<b>Determination of Annual Required Contribution:</b>	<b>Ending 12/31/16</b>	<b>Ending 12/31/15</b>
Normal Cost at Year End	\$65,368	\$64,671
Amortization of Unfunded Actuarial Accrued Liability	27,433	19,564
Annual Required Contribution	\$92,801	\$84,234
<b>Determination of Annual OPEB Cost:</b>		
Annual Required Contribution	\$92,801	\$84,234
Net OPEB Obligation Interest	7,693	4,902
Net OPEB Obligation Amortization	(11,122)	(7,087)
Annual OPEB COST	\$89,372	\$82,049
<b>Determination of Net OPEB Obligation:</b>		
Starting Net OPEB Obligation	\$192,327	\$112,552
Annual OPEB Cost	89,372	82,049
Contributions	3,666	2,274
Net OPEB Obligation	\$278,033	\$192,327

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2016 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>
12/31/2016	\$89,372	4%	\$278,033
12/31/2015	\$82,049	3%	\$192,327
12/31/2014	\$68,011	3%	\$112,551

**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, 2016, 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, 2016 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, 2016 AVR, which were developed from the 2007-2012 Experience Study performed by the Office of the State Actuary. The Office of Financial Management is responsible for the selection of the actuarial cost method, asset valuation method and funding policy for amortizing the Unfunded Actuarial Accrued Liability (UAAL).

The medical trend, claim cost, aging factors, and analysis of "Cadillac" plans under the Patient Protection and Affordable Care Act were determined by Milliman and used by the Office of the State Actuary for the OPEB actuarial valuation report dated June 30, 2016. 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, 2015, and was projected forward to match the open enrollment medical plan choices as of January 1, 2015. A single retirement age of 62.4 was assumed for all active members to determine the AAL and normal cost.

Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2016 actuarial valuation report issued by the Office of the State Actuary (OSA).

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

**NOTE 11 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$1,001,282
Pension assets	\$0
Deferred outflows of resources	\$209,336
Deferred inflows of resources	\$18,031
Pension expense/expenditures	\$162,812

**State Sponsored Pension Plans**

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

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

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

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

**Public Employee’s Retirement System (PERS)**

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
PERS Plan 1	6.21%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
Port of Kennewick’s actual contributions to the plan	\$46,063	

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

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or

older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administration Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
Port of Kennewick’s actual contributions to the plan	\$107,964	

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

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

## **Discount Rate**

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

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

## **Long-Term Expected Rate of Return**

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

## Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

## Sensitivity of Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$548,797	\$455,094	\$374,456
PERS 2/3	\$1,005,631	\$546,188	\$(284,323)

## Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, Port reported a total pension liability of \$1,001,282 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$455,094
PERS 2/3	\$546,188

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

	<b>Proportionate Share 6/30/15</b>	<b>Proportionate Share 6/30/16</b>	<b>Change in Proportion</b>
PERS 1	0.007485%	0.008474%	0.000989%
PERS 2/3	0.009662%	0.010848%	0.001186%

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

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

### **Pension Expense**

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

	<b>Pension Expense</b>
PERS 1	\$75,859
PERS 2/3	\$86,953
<b>TOTAL</b>	<b>\$162,812</b>

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

At December 31, 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$11,459	\$0
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$22,572	\$0
<b>TOTAL</b>	<b>\$34,031</b>	<b>\$0</b>

<b>PERS 2 &amp; 3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$29,084	\$(18,031)
Net difference between projected and actual investment earnings on pension plan investments	\$66,838	\$0
Changes of assumptions	\$5,645	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$44,257	\$0
Contributions subsequent to the measurement date	\$29,481	\$0
<b>TOTAL</b>	<b>\$175,305</b>	<b>\$(18,031)</b>

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense if the net amount is under \$1,000. In the year ending December 31, 2016 plans for PERS 1, PERS 2 and PERS 3 other amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year	PERS 1		PERS 2/3	
	Inflows	Outflows	Inflows	Outflows
2017	-	(2,821)	(5,635)	20,555
2018	-	(2,821)	(5,635)	20,555
2019	-	10,523	(5,635)	69,573
2020	-	6,578	(1,127)	35,143
2021	-	-	-	-
2022	-	-	-	-
<b>Total Deferred (Inflows)/Outflows</b>	<b>-</b>	<b>11,459</b>	<b>(18,031)</b>	<b>145,826</b>

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

In August of 2009, the Port of Kennewick entered into an interlocal agreement with the City of Kennewick establishing a Local Revitalization Financing Agreement as allowed by the State of Washington. The Port pledges the increased property taxes due to new construction stimulated by the City of Kennewick's bond financing in an amount not to exceed \$14,000 per year for a period of 25 years. The Port reports the revenues and expenses within the 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 2016 was \$0.33 per \$1,000 on an assessed valuation of \$11.4 billion for a total regular tax levy of just under \$3.8 million. In 2015, the regular tax levy was just over \$3.6 million.

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

**NOTE 14 – RISK MANAGEMENT**

Port of Kennewick is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2016, there are 205 members in the program.

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

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

of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,718,302.

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

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

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

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

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ended December 31, 2016, were \$1,484,482.

The Port of Kennewick had no material claims in 2016 and had no material claims paid out in 2016.

Port of Kennewick has chosen to be self-insured for unemployment insurance purposes. The Port had no claims during 2016 and no unemployment claims are outstanding as of December 31, 2016. 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*.

In January 2017, the 211 Columbia Drive Building collapsed due to heavy snowfall. This building was vacant, fully insured, and the Port is working with the insurance company to determine the amount of insurance proceeds.

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
6/30/2016	12/31/2016	\$0	\$474,367	\$474,367	0.00%	\$1,018,949	46.55%
6/30/2015	12/31/2015	\$0	\$338,293	\$338,293	0.00%	\$939,903	35.99%
6/30/2014	12/31/2014	\$0	\$225,444	\$225,444	0.00%	\$1,004,500	22.44%
6/30/2013	12/31/2013	\$0	\$223,577	\$223,577	0.00%	\$903,183	24.75%

**Port of Kennewick**

**MCAG No. 1699**

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

**As of June 30, 2016**

**PERS 1**

	2015	2016
Employer's proportion of the net pension liability (asset)	0.007485%	0.008474%
Employer's proportionate share of the net pension liability	\$ 391,535	\$ 455,094
TOTAL	\$ 391,535	\$ 455,094
Employer's covered employee payroll	\$ 857,894	\$ 947,168
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.64%	48.05%
Plan fiduciary net position as a percentage of the total pension liability	59.01%	57.03%

**PERS 2 & 3**

	2015	2016
Employer's proportion of the net pension liability (asset)	0.00749%	0.008474%
Employer's proportionate share of the net pension liability	\$ 345,229	\$ 546,188
TOTAL	\$ 345,229	\$ 546,188
Employer's covered employee payroll	\$ 857,894	\$ 947,168
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.24%	57.67%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	57.03%

**Port of Kennewick**

**MCAG No. 1699**

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

**As of December 31, 2016**

**PERS 1**

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 39,197	\$ 46,063
Contributions in relation to the statutorily or contractually required contributions	\$ (39,197)	\$ (46,063)
Contribution deficiency (excess)	<u>0</u>	<u>0</u>
Covered employer payroll	892,400	965,689
Contributions as a percentage of covered employee payroll	4.39%	4.77%

**PERS 2 & 3**

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 51,950	\$60,162
Contributions in relation to the statutorily or contractually required contributions	\$ (51,950)	\$ (60,162)
Contribution deficiency (excess)	<u>0</u>	<u>0</u>
Covered employer payroll	892,400	965,689
Contributions as a percentage of covered employee payroll	5.82%	6.23%

**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 Directors  
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 the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Port of Kennewick, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port of Kennewick's basic financial statements, and have issued our report thereon dated December 12, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Port of Kennewick's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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  
December 12, 2017

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 01  
Revenues and Expenses\***

**For the Year Ended December 31, 2016**

<b>Account Code</b>	<b>Account Title</b>	<b>Actual Amount</b>
3629000	Marina User Charges	\$ 315,050
3740270	Capital Contributions	\$ 23,815
3624000	Property Leases/Rental Revenues	\$ 849,487
3111000	Ad Valorem Tax (Property Tax)	\$ 3,809,272
3699200	Nonoperating Revenues	\$ 73,434
3951000	Proceeds from Sale of Capital Assets or (Losses)	\$ 611,740
5981010	Other Expenses Salary & Benefits	\$ 963,479
5981030	Other Expenses Supplies	\$ 674,770
5981040	Other Expenses Services	\$ 66,031
5014600	Depreciation	\$ 1,205,321
5985000	Nonoperating Expenses	\$ 1,211,077
3695000	Special Item	\$ -

\*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, 2016**

Type	ID No.	Description	Date of Original Issue	Date of Maturity	Beginning Balance January 1	Additions	Deletions	Ending Outstanding Balance December 31
GO	259.12	Compensated Absences	N/A	N/A	\$ 180,555	\$ 14,986	\$ -	\$ 195,541
GO	264.30	PERS/Pension Related	Jan-15	N/A	736,764	\$ 264,518	\$ -	\$ 1,001,282
GO	263.40	OPEB/Pension Related	Jan-13	N/A	\$ 192,327	\$ 85,706	\$ -	\$ 278,033
<b>Total Liabilities</b>				\$ -	\$ 1,109,646	\$ 365,210	\$ -	\$ 1,474,856

\*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, 2016**

Grantor / Program Title	Identification Number	Current Year Expenditures
Washington State Recreation Conservation Office Grant / Boating Facilities Program	N/A	\$23,815

**\*NOTE 1 – BASIS OF ACCOUNTING**

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

**\*NOTE 2 – PROGRAM COSTS**

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

**Port of Kennewick**

**MCAG No. 1699**

**Schedule 19**

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

**For the Year Ended December 31, 2016**

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.