Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

Port of Edmonds

Snohomish County

For the period January 1, 2012 through December 31, 2013

Published October 6, 2014

Report No. 1012759

Washington State Auditor
Troy Kelley

October 6, 2014

Board of Commissioners
Port of Edmonds
Edmonds, Washington

Report on Financial Statements

Please find attached our report on the Port of Edmonds' financial statements.

We are issuing this report in order to provide information on the Port's financial condition.

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

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Port of Edmonds
Snohomish County
January 1, 2012 through December 31, 2013

Independent Auditor's 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*

Port of Edmonds
Snohomish County
January 1, 2012 through December 31, 2013

Board of Commissioners
Port of Edmonds
Edmonds, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Edmonds, Snohomish County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 10, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2012, the Port implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Port'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port'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 Port'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's financial statements are free from material misstatement, we performed tests of the Port's 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 results of that testing, and not to provide an opinion on the effectiveness of the Port'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 Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 10, 2014

Independent Auditor's Report on Financial Statements

Port of Edmonds
Snohomish County
January 1, 2012 through December 31, 2013

Board of Commissioners
Port of Edmonds
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Edmonds, Snohomish County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Port'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 Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Edmonds, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2012, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 23 and information on postemployment benefits other than pensions on pages 84 through 85 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR

September 10, 2014

Financial Section

Port of Edmonds
Snohomish County
January 1, 2012 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

PORT OF EDMONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Port of Edmonds' (the Port's) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements.

The Port of Edmonds is a Special Purpose Municipal Government. The Port was created in 1948 by a vote of the citizens of the Port district. The district encompasses portions of the City of Edmonds and all of the Town of Woodway. Ports exist to build infrastructure and promote economic development within their districts. Ports are often, though not always, involved in transportation activities.

The Port of Edmonds operates a marina for recreational boating on Puget Sound and rents its land to commercial users who then build suitable facilities on the land. The facility consists of the marina with approximately 660 slips, a dry stack storage facility with approximately 230 spaces, two public boat launches, a boatyard, a fuel dock, guest moorage, offices, and parking facilities. In addition to the Port's marina operations, the Port owns and manages eight buildings, and rents portions of those buildings to approximately 60 tenants. Major tenants include a hotel, an athletic club, and two restaurants.

Five elected Port Commissioners administer the Port. In accordance with the laws of Washington, the Commissioners have appointed an Executive Director to manage Port operations.

USING THE ANNUAL REPORT

Government accounting falls under the control of the Government Accounting Standards Board (GASB). All of the functions of the Port are considered in the numbers shown on the following pages, including the cost of general government of the Port District. Since the Port is a Special Purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance, and public meeting expenses. All of these expenses of the Port are reported in the Proprietary Fund. The "one fund" model is used in compliance with the rules of GASB 34, which state that separately issued debt and separately issued classified assets are needed in order for a separate fund to exist. Most of these governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports. Since the Port is comprised of a single enterprise fund, no fund level financial statements are shown.

Ports perform their accounting and financial reporting of their activities very much like a business. The Port prepares an income statement, manages operations, and plans capital investment strategies. Ports collect revenues from services performed for customers and pay for expenses related to those services. However, ports are municipal governments. As such, ports may collect property tax revenues from the property owners within the Port district. These tax revenues may go to support the capital investments made by the Port. Often, ports will use tax revenues to pay for debt incurred to construct facilities that are used to support port functions. Sometimes, ports may use a portion of their tax revenue to pay for operating expenses. The Port of Edmonds uses its tax revenue to pay for Commission costs, public amenities, and economic development.

The financial statements provide a broad view of the Port's operations in a manner similar to a private-sector business. The financial statements take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

The Statement of Net Position (also known as the Balance Sheet) presents all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in the Port's net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents information showing how the Port's net position changed during the year. Revenues less expenses, when combined with other nonoperating items such as investment income, tax receipts and interest expense, results in a net increase or decrease in the Port's net position for the year.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, and investing and 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 Fund Net Position is also included.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

One of the questions to be answered by the financial statements would be, "Is the Port as a whole better off or worse off as a result of this year's activities?" Changes in net position and cash flows are two ways of measuring the financial position of the Port. Increases in Net Position as a result of the year's operations indicate an improved financial position. In 2013, the Port's Net Position increased by $994,893 or 3.4%, which shows that the Port of Edmonds performed slightly better in 2013 than in 2012. Cash flows show if the Port is spending more money than it received. In 2013, the Port of Edmonds received $653,793 more than it spent before investing in long-term investments. Overall, the Port is in a better financial position than it was in 2012.

FINANCIAL HIGHLIGHTS

The Port's total operating revenues increased by $209,381, or 3.0% over 2012. The increase is primarily due to increases in marina operations revenue. The Port's non-operating revenues increased by $10,170, or 2.3% above 2012. This increase is primarily due to grant proceeds received in 2013.

The Port's operating expenses decreased by $9,381 in 2013, or 0.2% less than 2012 operating expense levels. The Port's non-operating expenses decreased by $74,939, or 11% below 2012 non-operating expense levels. This decrease is due to the decrease in interest expense in 2013.

The Port's operating income was $1,128,033 in 2013, as compared to $909,271 in 2012.

The Port's net position increased by $994,893 in 2013.

The Port's assets exceeded its liabilities by $30,736,641 (net position) as of December 31, 2013.

FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

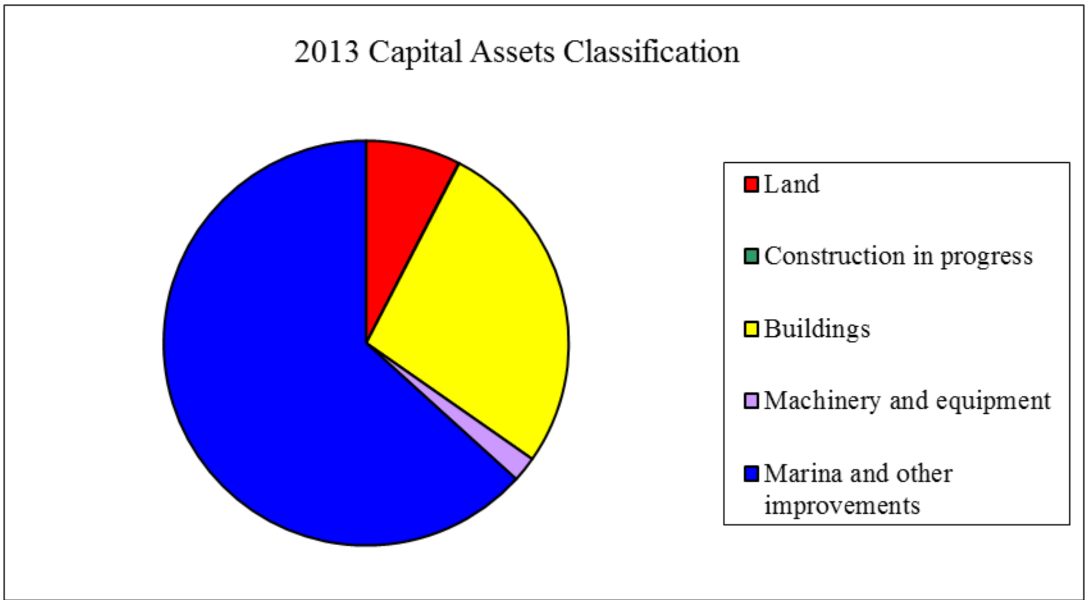
Summary of Statement of Net Position				
	2013	2012	Increase (Decrease)	% Change
Current Assets	$ 7,774,648	$ 8,997,865	$ (1,223,217)	-13.59%
Noncurrent Restricted Assets	805,940	801,930	4,010	0.50%
Capital Assets	33,118,333	34,116,952	(998,619)	-2.93%
Other Noncurrent Assets	1,483,410	-	1,483,410	N/A
Total Assets	43,182,331	43,916,747	(734,416)	-1.67%
Deferred Outflows of Resources	39,225	58,037	(18,812)	-32.41%
Total Assets and Deferred Outflows of Resources	43,221,556	43,974,784	(753,228)	-1.71%
Current Liabilities	2,003,031	2,004,796	(1,765)	-0.09%
Noncurrent Liabilities	10,481,884	12,228,240	(1,746,356)	-14.28%
Total Liabilities	12,484,915	14,233,036	(1,748,121)	-12.28%
Deferred Inflows of Resources	-	-	-	N/A
Net investment in capital assets	22,659,575	21,893,570	766,005	3.50%
Unrestricted	8,077,066	7,848,178	228,888	2.92%
Total Net Position	30,736,641	29,741,748	994,893	3.35%
Total Liabilities, Deferred Inflows of Revenues, and Net Position	$ 43,221,556	$ 43,974,784	$ (753,228)	-1.71%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2013, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Total Net Position increased by $994,893, or 3.4% in 2013, for a total of $30,736,641. Of this amount $22,659,575 reflects the Port's net investment in capital assets.

CAPITAL ASSETS

The Port has booked the acquisition of all assets at historical costs on its Statement of Net Position. GASB 34 requires the Port to capitalize and depreciate all of the assets owned or controlled by the Port, which is done on these financial statements. In 2013, the Port purchased or constructed and capitalized a storage shed, tenant improvements, a roof, a server, and electrical upgrades.

The Port's capital assets are classified into the following categories: land, construction in progress, buildings, marina and other improvements, and machinery and equipment. Marina and other improvements include assets such as docks, breakwaters, the dry stack facility, roads, and landscaping. See Note 5, *Capital Assets and Depreciation*, in the Notes to the Financial Statements for more information.

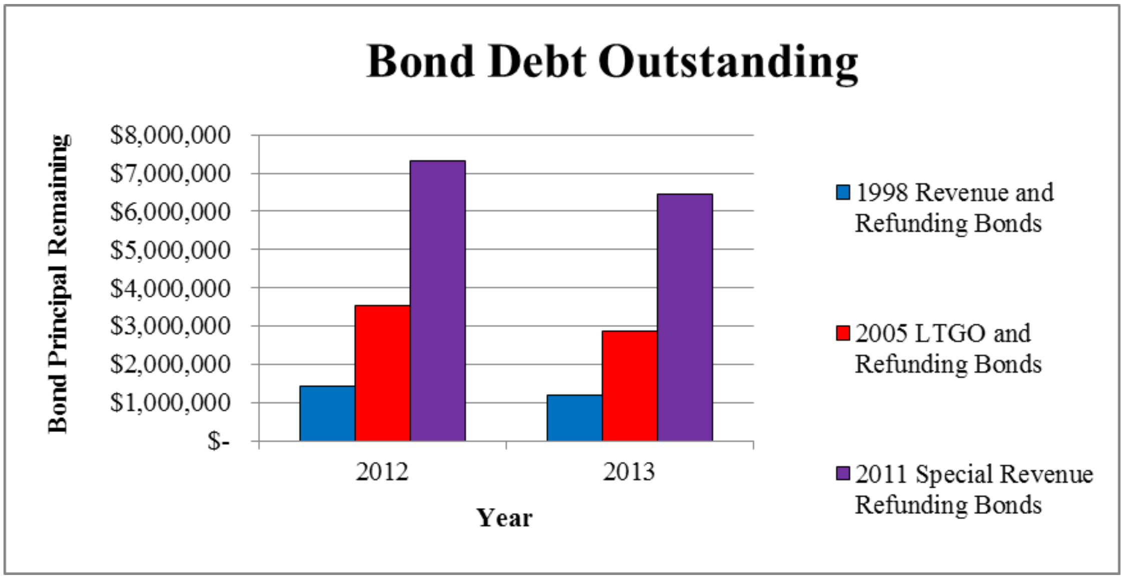


Capital Asset	2013	2012
Land	$ 4,323,675	$ 4,323,675
Construction in progress	27,761	10,819
Buildings	15,546,512	15,039,721
Machinery and equipment	1,158,503	1,147,222
Marina and other improvements	36,271,018	36,176,444
	$ 57,327,469	$ 56,697,881

The Port maintained capital assets of $57,327,469 as of December 31, 2013. The book value of the capital assets decreased by $998,619 in 2013 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital assets in a year, the book value of its asset base increases.

DEBT

The Port's current liabilities as of December 31, 2013, are debts that the Port will repay in 2013. The total current liabilities decreased by $1,765 in 2013. Current liabilities include payments for expenses already incurred, accrued interest on the Port's bonds, customer deposits, and the principal amount of the bond payments due in 2014.



Bond	2013	2012
1998 Revenue and Refunding Bonds	$1,175,000	$1,435,000
2005 LTGO and Refunding Bonds	$2,880,000	$3,525,000
2011 Special Revenue Refunding Bonds	$6,440,315	$7,317,473

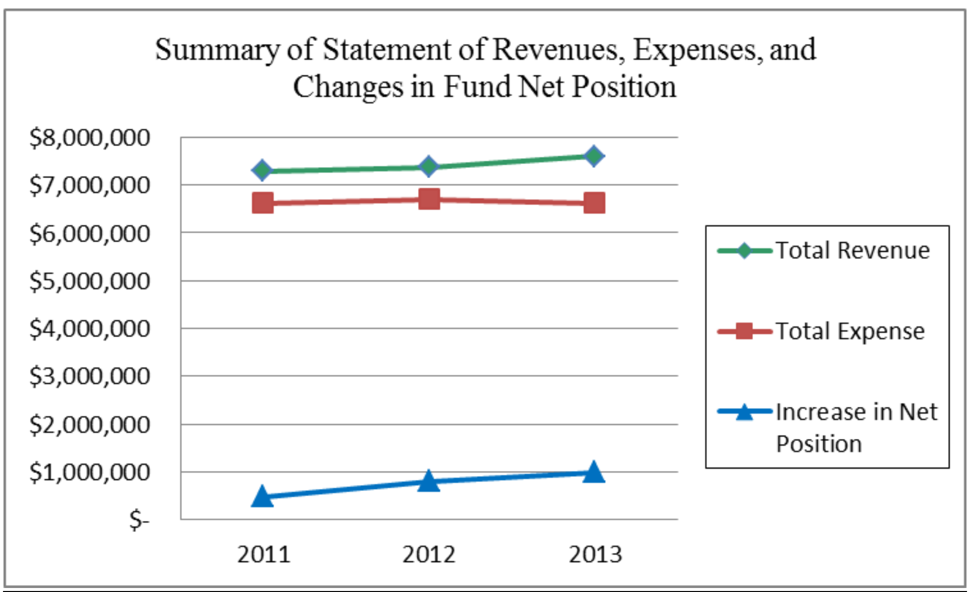
The Port's long term liabilities decreased by $1,746,356 in 2013, as the Port made principal payments on its bonds. General Obligation bonds outstanding at December 31, 2013 were $2,880,000, a decrease of $645,000 from 2012. Revenue and Refunding bonds outstanding at December 31, 2013 were $7,615,315, a decrease of $1,137,157 from the previous year. See Note 10, *Long-Term Debt* in the Notes to the Financial Statements for more information.

FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Fund Net Position provides answers as to the nature and source of these changes. The Port's total revenues increased by $219,551 in 2013. Operating revenues increased by $209,381 in 2013. Nonoperating revenues increased by $10,170 in 2013.

Total expenses decreased by $84,320 in 2013. Operating expenses decreased by $9,381 in 2013. Nonoperating expenses decreased by $74,939 in 2013.

Summary of Statement of Revenues, Expenses, and Changes in Fund Net Position				
	2013	2012	Increase (Decrease)	% Change
Marina Operations Revenues	$ 5,157,925	$ 4,907,458	$ 250,467	5.10%
Property/Lease Rental Operations Revenues	1,990,968	2,032,054	(41,086)	-2.02%
Nonoperating Revenues	448,667	438,497	10,170	2.32%
Total Revenues	7,597,560	7,378,009	219,551	2.98%
Operating Expenses	6,020,860	6,030,241	(9,381)	-0.16%
Nonoperating Expenses	603,387	678,326	(74,939)	-11.05%
Total Expenses	6,624,247	6,708,567	(84,320)	-1.26%
Income before other revenues, expenses, gains, losses, and transfers	973,313	669,442	303,871	45.39%
Capital Contributions	15,235	-	15,235	N/A
Extraordinary/Special Items	(4,888)	224,723	(229,611)	-102.18%
Increase in Net Position	983,660	894,165	89,495	10.01%
Net Position - Beginning	29,741,748	28,932,628	809,120	2.80%
Prior Period Adjustments	11,233	(85,045)	96,278	113.21%
Net Position - Ending	$ 30,736,641	$ 29,741,748	$ 994,893	3.35%



PROGRAM IMPACTS

There is one major program impact facing the Port that could result in material changes in its financial position in the long term.

The Port of Edmonds purchased the Harbor Square land in 1978 from the Union Oil Company. From 1924 to 1968, portions of the property were used as an oil and gasoline depot and distribution facility, a railcar cleaning facility, an asphalt batch plant, and heavy-equipment storage. Several remedial investigations were conducted at the property from 1989 to 2003. In June 2003, a supplemental site investigation was conducted at the direction of the Department of Ecology to further define the extent of contamination identified at the property during previous investigations, to help identify any additional areas of contamination, and to further evaluate any impacts to groundwater. The Port developed a remediation plan based on that investigation.

The estimated costs presented in the plan are for all remediation activities anticipated at the site, which are described as Phase I through Phase III remediation in the report. Phase I and Phase II remediation efforts were essentially completed in 2005 and 2006.

Phase III remediation remains to be completed. The majority of the contamination to be addressed in Phase III remediation is located under existing buildings; some areas of residual contamination (expected to be relatively small) are located outside building footprints, but underneath paved surfaces. Phase III activities were not undertaken due to the inaccessibility of the contaminated areas, although the Port has committed to remediation at such time that the structures at the Harbor Square complex are removed for future development.

The estimated cost of Phase III remediation is expected to range between $175,000 and $1,050,000. Please see Note 14, *Pollution Remediation Obligations*, for further information.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Tina Drennan, Finance Manager, at the Port of Edmonds, 336 Admiral Way, Edmonds, WA 98020 or by telephone at 425-774-0549.

PORT OF EDMONDS
MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Statement of Net Position (also known as the Balance Sheet) presents all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in the Port's net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents information showing how the Port's net position changed during the year. Revenues less expenses, when combined with other nonoperating items such as investment income, tax receipts and interest expense, results in a net increase or decrease in the Port's net position for the year.

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One of the questions to be answered by the financial statements would be, "Is the Port as a whole better off or worse off as a result of this year's activities?" Changes in net position and cash flows are two ways of measuring the financial position of the Port. Increases in Net Position as a result of the year's operations indicate an improved financial position. In 2012, the Port's Net Position increased by $809,120 or 2.8%, which shows that the Port of Edmonds performed slightly better in 2012 than in 2011. Cash flows show if the Port is spending more money than it received. In 2012, the Port of Edmonds received $784,628 more than it spent. Overall, the Port is in a better financial position than it was in 2011.

FINANCIAL HIGHLIGHTS

The Port's overall operating revenues increased by $105,548, or 1.5% over 2011. The increase is primarily due to increases in marina operations revenue. The Port's non-operating revenues decreased by $17,643, or 3.87% below 2011. This decrease is primarily due to a gain on disposal of a fixed asset in 2011.

The Port's overall operating expenses increased by $282,015 in 2012, or 4.91% over 2011 operating expense levels. The Port's non-operating expenses decreased by $201,412, or 22.89% below 2011 non-operating expense levels. This decrease is due to the decrease in interest expense in 2012.

The Port's overall operating income was $909,271 in 2012, as compared to $1,085,738 in 2011.

The Port's net position increased by $809,120 in 2012.

The Port's assets exceeded its liabilities by $29,741,748 (net position) as of December 31, 2012.

FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

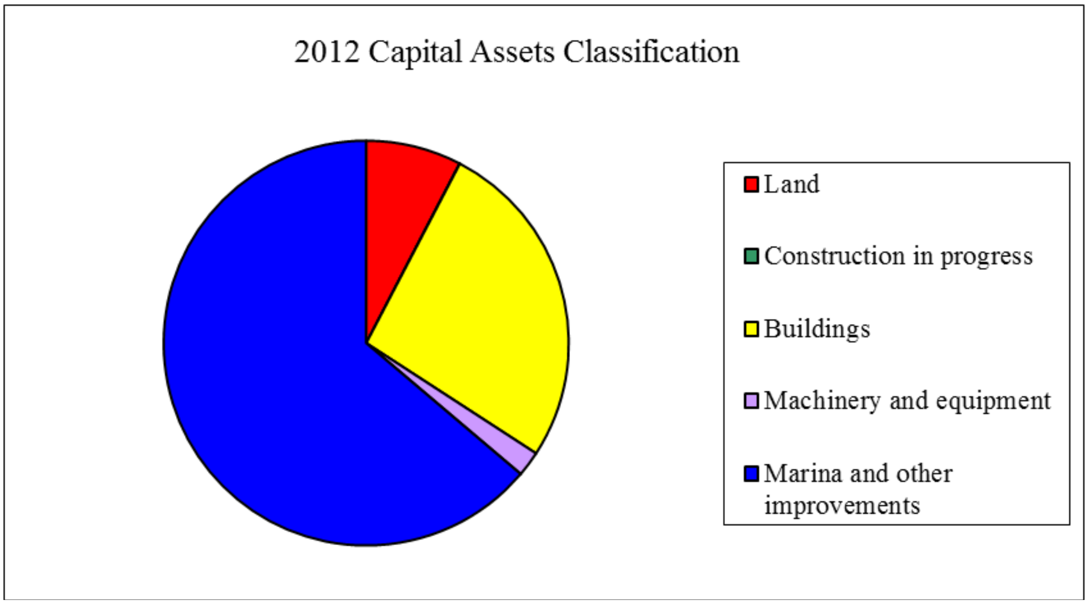
Summary of Statement of Net Position				
	2012	2011	Increase (Decrease)	% Change
Current Assets	$ 8,997,865	$ 7,877,398	$ 1,120,467	14.22%
Noncurrent Restricted Assets	801,930	801,888	42	0.01%
Capital Assets	34,116,952	35,609,626	(1,492,674)	-4.19%
Other Noncurrent Assets	-	103,650	(103,650)	N/A
Total Assets	43,916,747	44,392,562	(475,815)	-1.07%
Deferred Outflows of Resources	58,037	-	58,037	0.00%
Total Assets and Deferred Outflows of Resources	43,974,784	44,392,562	(417,778)	-0.94%
Current Liabilities	2,004,796	1,999,029	5,767	0.29%
Noncurrent Liabilities	12,228,240	13,460,905	(1,232,665)	-9.16%
Total Liabilities	14,233,036	15,459,934	(1,226,898)	-7.94%
Deferred Inflows of Resources	-	-	-	N/A
Net investment in capital assets	21,893,570	22,100,686	(207,116)	-0.94%
Unrestricted	7,848,178	6,831,942	1,016,236	14.87%
Total Net Position	29,741,748	28,932,628	809,120	2.80%
Total Liabilities, Deferred Inflows of Revenues, and Net Position	$ 43,974,784	$ 44,392,562	$ (417,778)	-0.94%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2012, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Total Net Position increased by $809,120, or 2.8% in 2012, for a total of $29,741,748. Of this amount $21,893,570 reflects the Port's net investment in capital assets.

CAPITAL ASSETS

The Port has booked the acquisition of all assets at historical costs on its Statement of Net Position. GASB 34 requires the Port to capitalize and depreciate all of the assets owned or controlled by the Port, which is done on these financial statements. In 2012, the Port purchased and capitalized awnings at Marina Operations, two HVAC units at Harbor Square, a worktruck, and renovations to the Dry Storage launchers.

The Port's capital assets are classified into the following categories: land, construction in progress, buildings, marina and other improvements, and machinery and equipment. Marina and other improvements include assets such as docks, breakwaters, the dry stack facility, roads, and landscaping. See Note 5, *Capital Assets and Depreciation*, in the Notes to the Financial Statements for more information.

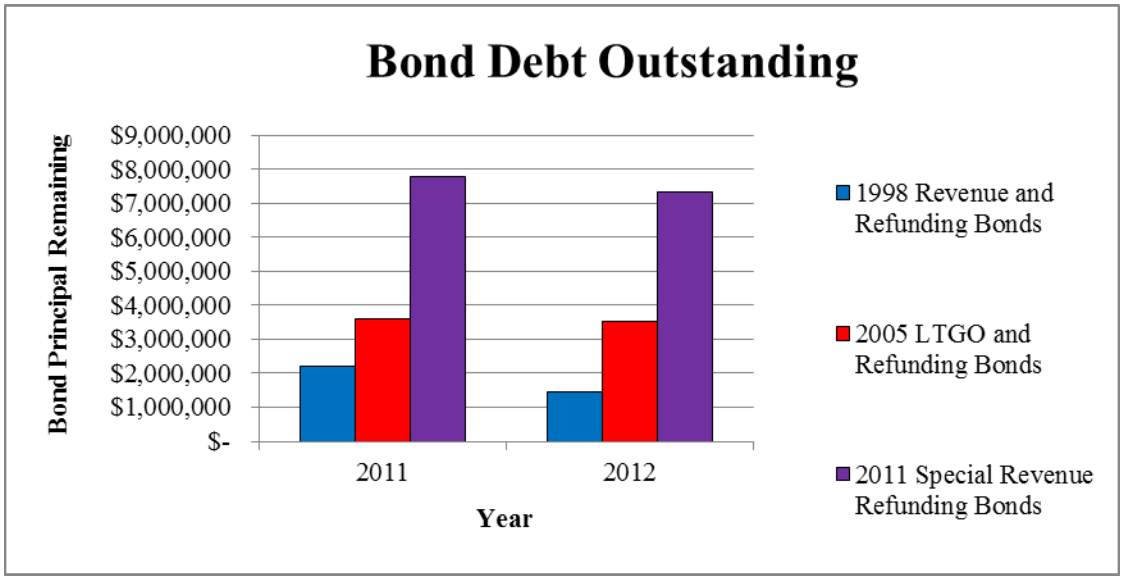


Capital Asset	2012	2011
Land	$ 4,323,675	$ 4,323,675
Construction in progress	10,819	-
Buildings	15,039,721	15,023,437
Machinery and equipment	1,147,222	1,140,204
Marina and other improvements	36,176,444	36,071,717
	$ 56,697,881	$ 56,559,033

The Port maintained capital assets of $56,697,881 as of December 31, 2012. The book value of the capital assets decreased by $1,492,674 in 2012 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital assets in a year, the book value of its asset base increases.

DEBT

The Port's current liabilities as of December 31, 2012, are debts that the Port will repay in 2013. The total current liabilities increased by $5,767 in 2012. Current liabilities include payments for expenses already incurred, accrued interest on the Port's bonds, customer deposits, and the principal amount of the bond payments due in 2013.



Bond	2012	2011
1998 Revenue and Refunding Bonds	$1,435,000	$2,195,000
2005 LTGO and Refunding Bonds	$3,525,000	$3,595,000
2011 Special Revenue Refunding Bonds	$7,317,473	$7,798,434

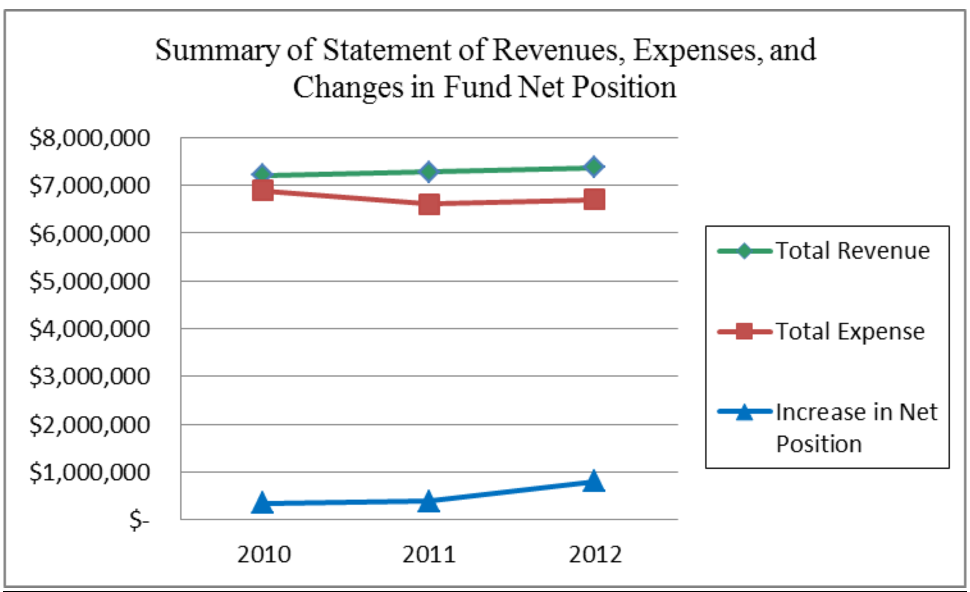
The Port's long term liabilities decreased by $1,232,665 in 2012, as the Port made principal payments on its bonds. General Obligation bonds outstanding at December 31, 2012 were $3,525,000, a decrease of $70,000 from 2011. Revenue and Refunding bonds outstanding at December 31, 2012 were $8,752,473, a decrease of $1,240,961 from the previous year. See Note 10, *Long-Term Debt*, and Note 12, *Changes in Long-Term Liabilities*, in the Notes to the Financial Statements for more information.

FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Fund Net Position provides answers as to the nature and source of these changes. The Port's total revenues increased by $96,571 in 2012. Operating revenues increased by $105,548 in 2012. Nonoperating revenues decreased by $8,977 in 2012.

Total expenses increased by $80,603 in 2012. Operating expenses increased by $282,015 in 2012. Nonoperating expenses decreased by $201,412 in 2012.

Summary of Statement of Revenues, Expenses, and Changes in Fund Net Position				
	2012	2011	Increase (Decrease)	% Change
Marina Operations Revenues	$ 4,907,458	$ 4,764,642	$ 142,816	3.00%
Property/Lease Rental Operations Revenues	2,032,054	2,069,322	(37,268)	-1.80%
Nonoperating Revenues	438,497	447,474	(8,977)	-2.01%
Total Revenues	7,378,009	7,281,438	96,571	1.33%
Operating Expenses	6,030,241	5,748,226	282,015	4.91%
Nonoperating Expenses	678,326	879,738	(201,412)	-22.89%
Total Expenses	6,708,567	6,627,964	80,603	1.22%
Income before other revenues, expenses, gains, losses, and transfers	669,442	653,474	15,968	2.44%
Capital Contributions	-	25,514	(25,514)	N/A
Extraordinary/Special Items	224,723	(216,193)	440,916	-203.95%
Increase in Net Position	894,165	462,795	431,370	93.21%
Net Position - Beginning	28,932,628	28,454,338	478,290	1.68%
Prior Period Adjustments	(85,045)	15,495	(100,540)	-648.85%
Net Position - Ending	$ 29,741,748	$ 28,932,628	$ 809,120	2.80%



PROGRAM IMPACTS

There is one major program impact facing the Port that could result in material changes in its financial position in the long term.

The Port of Edmonds purchased the Harbor Square land in 1978 from the Union Oil Company. From 1924 to 1968, portions of the property were used as an oil and gasoline depot and distribution facility, a railcar cleaning facility, an asphalt batch plant, and heavy-equipment storage. Several remedial investigations were conducted at the property from 1989 to 2003. In June 2003, a supplemental site investigation was conducted at the direction of the Department of Ecology to further define the extent of contamination identified at the property during previous investigations, to help identify any additional areas of contamination, and to further evaluate any impacts to groundwater. The Port developed a remediation plan based on that investigation.

The estimated costs presented in the plan are for all remediation activities anticipated at the site, which are described as Phase I through Phase III remediation in the report. Phase I and Phase II remediation efforts were essentially completed in 2005 and 2006.

Phase III remediation remains to be completed. The majority of the contamination to be addressed in Phase III remediation is located under existing buildings; some areas of residual contamination (expected to be relatively small) are located outside building footprints, but underneath paved surfaces. Phase III activities were not undertaken due to the inaccessibility of the contaminated areas, although the Port has committed to remediation at such time that the structures at the Harbor Square complex are removed for future development.

The estimated cost of Phase III remediation is expected to range between $175,000 and $1,050,000. Please see Note 15, *Pollution Remediation Obligations*, for further information.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Tina Drennan, Finance Manager, at the Port of Edmonds, 336 Admiral Way, Edmonds, WA 98020 or by telephone at 425-774-0549.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 1 and 3)	$ 7,348,793
Restricted Assets (Note 1)	
Cash and cash equivalents (Notes 1 and 3)	171,694
Accounts receivable (net of allowance for uncollectibles) (Note 1)	49,233
Taxes receivable (Notes 1 and 4)	8,142
Interest receivable (Note 1)	3,718
Inventory (Note 1)	66,869
Prepaid expenses	126,199
Total Current Assets	7,774,648
Noncurrent Assets	
Investments (Note 3)	1,483,410
Restricted Assets (Note 1)	
Investments (Notes 1 and 3)	805,940
Capital Assets	
Capital Assets Not Being Depreciated (Note 5)	
Land	4,323,675
Construction in progress (Note 6)	27,761
Capital Assets Being Depreciated (Note 5)	
Buildings	15,546,512
Marina and other improvements	36,271,018
Machinery and equipment	1,158,503
Less: Accumulated depreciation	(24,209,136)
Total Net Capital Assets	33,118,333
Other Noncurrent Assets	-
Total Noncurrent Assets	35,407,683
TOTAL ASSETS	$ 43,182,331
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding (Note 1)	$ 39,225

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

LIABILITIES	
Current Liabilities	
Accounts payable	$ 223,296
Accrued expenses (Note 1)	104,109
Accrued interest payable (Note 10)	37,826
Unearned revenue (Note 13)	103,095
Customer deposits	407,181
Current portion of long-term obligations (Note 10)	1,127,524
Total Current Liabilities	2,003,031
Noncurrent Liabilities	
General obligation bonds, net of current portion (Note 10)	2,207,667
Revenue bonds, net of current portion (Note 10)	7,162,792
Employee leave benefits (Note 1)	95,294
Other postemployment benefits (Note 8)	403,631
Environmental remediation liability (Note 14)	612,500
Total Noncurrent Liabilities	10,481,884
TOTAL LIABILITIES	12,484,915
DEFERRED INFLOWS OF RESOURCES	-
NET POSITION	
Net investment in capital assets	22,659,575
Unrestricted	8,077,066
TOTAL NET POSITION	$ 30,736,641

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 1 and 3)	$ 8,207,025
Restricted Assets (Note 1)	
Cash and cash equivalents (Notes 1 and 3)	174,242
Taxes receivable (Notes 1 and 4)	9,992
Accounts receivable (net of allowance for uncollectibles) (Note 1)	404,368
Inventory (Note 1)	75,056
Prepaid expenses	127,182
Total Current Assets	8,997,865
Noncurrent Assets	
Restricted Assets (Note 1)	
Investments (Notes 1 and 3)	801,930
Capital Assets Not Being Depreciated (Note 5)	
Land	4,323,675
Construction in progress (Note 6)	10,819
Capital Assets Being Depreciated (Note 5)	
Buildings	15,039,721
Marina and other improvements	36,176,444
Machinery and equipment	1,147,222
Less: Accumulated depreciation	(22,580,929)
Total Net Capital Assets	34,116,952
Other Noncurrent Assets	-
Total Noncurrent Assets	34,918,882
TOTAL ASSETS	43,916,747
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding (Note 1)	58,037
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 43,974,784

See accompanying notes to the financial statements

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2012

LIABILITIES	
Current Liabilities	
Accounts payable	$ 291,819
Accrued expenses (Note 1)	96,827
Accrued interest payable (Note 10)	46,085
Customer deposits	397,338
Unearned revenues (Note 14)	99,386
Current portion of long-term obligations (Note 10 and 12)	1,073,341
Total Current Liabilities	2,004,796
Noncurrent Liabilities	
General obligation bonds, net of current portion (Note 10 and 12)	2,883,946
Revenue bonds, net of current portion (Note 10 and 12)	8,324,132
Employee leave benefits (Note 1)	91,594
Other postemployment benefits (Note 8)	316,068
Environmental remediation liability (Note 15)	612,500
Total Noncurrent Liabilities	12,228,240
TOTAL LIABILITIES	14,233,036
DEFERRED INFLOWS OF RESOURCES	-
NET POSITION	
Net investment in capital assets	21,893,570
Unrestricted	7,848,178
TOTAL NET POSITION	29,741,748
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 43,974,784

See accompanying notes to the financial statements

PORT OF EDMONDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUES (Note 1)	
Marina operations	$ 5,157,925
Property lease/rental operations	1,990,968
Total Operating Revenues	7,148,893
OPERATING EXPENSES (Note 1)	
General operations	3,057,610
Maintenance	357,644
General and administrative	945,988
Depreciation (Note 5)	1,659,618
Total Operating Expenses	6,020,860
Operating Income	1,128,033
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income (Note 3)	25,471
Taxes levied for general purposes (Note 4)	406,147
Grant proceeds	17,049
Loss on disposition of fixed assets	(88)
Interest expense (Note 10)	(584,223)
Election expense	(6,128)
Decrease in fair value of investments (Note 3)	(12,948)
Total Nonoperating Revenues (Expenses)	(154,720)
Income before other revenues, expenses, gains, losses, and transfers	973,313
Capital contributions	15,235
Property damage expenses, net of reimbursements (Note 15)	(4,888)
Increase in net position	983,660
Net position - beginning of period	29,741,748
Prior period adjustments (Note 16)	11,233
Net position - end of period	$ 30,736,641

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES (Note 1)	
Marina operations	$ 4,907,458
Property lease/rental operations	2,032,054
Total Operating Revenues	6,939,512
OPERATING EXPENSES (Note 1)	
General operations	3,056,916
Maintenance	363,608
General and administrative	953,222
Depreciation (Note 5)	1,656,495
Total Operating Expenses	6,030,241
Operating Income	909,271
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income	30,290
Taxes levied for general purposes (Note 4)	406,767
Grant proceeds	-
Gain on disposition of fixed assets	1,440
Interest expense (Note 10)	(678,326)
Election expense	-
Total Nonoperating Revenues (Expenses)	(239,829)
Income before other revenues, expenses, gains, losses, and transfers	669,442
Capital contributions	-
Property damage reimbursements, net of expenses (Note 17)	224,723
Increase in net position	894,165
Net position - beginning of period	28,932,628
Change in Accounting Principle (Note 16)	(85,045)
Net position - end of period	$ 29,741,748

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers (Note 1)	$ 7,200,055
Payments to suppliers	(2,128,445)
Payments to employees	(2,193,605)
Net cash provided by operating activities	2,878,005
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 4)	407,997
Nonoperating receipts	392,038
Nonoperating expenses (Note 1)	(57,538)
Net cash provided by noncapital financing activities	742,497
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital grant	15,235
Purchases and construction of capital assets (Note 5)	(661,087)
Principal paid on capital debt (Note 10 and 12)	(1,782,157)
Interest paid on capital debt (Note 10 and 12)	(574,950)
Net cash used by capital and related financing activities	(3,002,959)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments (Note 3)	-
Purchases of investments (Note 3)	(1,500,076)
Interest and dividends	21,753
Net cash used by investing activities	(1,478,323)
Net decrease in cash and cash equivalents	(860,780)
Balances - beginning of the year	8,381,267
Balances - end of the year (Note 1)	7,520,487
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	1,128,033
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense (Note 5)	1,659,618
Changes in assets and liabilities	
(Increase)/decrease in accounts receivable	37,610
(Increase)/decrease in inventory	8,187
(Increase)/decrease in prepaid expenses	983
Increase/(decrease) in accounts payable	(68,523)
Increase/(decrease) in accrued expenses	7,282
Increase/(decrease) in customer deposits	9,843
Increase/(decrease) in unearned revenue	3,709
Increase/(decrease) in employee leave benefits	3,700
Increase/(decrease) in other post-employment benefits	87,563
Net cash provided by operating activities	$ 2,878,005

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers (Note 1)	$ 7,026,597
Payments to suppliers	(2,100,093)
Payments to employees	(2,164,018)
Net cash provided by operating activities	2,762,486
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 4)	409,760
Nonoperating receipts	24,083
Nonoperating expenses (Note 1)	(316,742)
Net cash provided by noncapital financing activities	117,101
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets (Note 5)	(162,381)
Principal paid on capital debt (Note 10 and 12)	(1,310,961)
Interest paid on capital debt (Note 10 and 12)	(651,907)
Net cash used by capital and related financing activities	(2,125,249)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of certificates of deposit (Note 3)	800,900
Purchases of certificates of deposit (Note 3)	(800,900)
Interest and dividends	30,290
Net cash provided by investing activities	30,290
Net increase in cash and cash equivalents	784,628
Balances - beginning of the year	7,596,639
Balances - end of the year (Note 1)	8,381,267
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	909,271
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense (Note 5)	1,656,495
Changes in assets and liabilities	
Receivables, net	(12,301)
Inventories	3,791
Prepaid expenses	(12,797)
Accounts and other payables	29,880
Accrued expenses	188,147
Net cash provided by operating activities	$ 2,762,486

See accompanying notes to the financial statements.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Edmonds (the Port) was incorporated in December 1948, and operates under the laws of the State of Washington applicable to a public port district. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through user charges.

The Port is governed by an elected five member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the Port's activity are included on the statements of net position. The reported fund position is segregated into net investment in capital assets, and 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 its operating, noncapital financing, capital and related financing, and investing activities.

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

The Port distinguishes between operating revenues and expenses and nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for boating services. The Port also recognizes land and building lease revenue as operating revenue.

Operating expenses for the Port include general operations, maintenance, general and administrative, and depreciation. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding $7,520,487 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents and restricted assets, cash and cash equivalents.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2013 were approximately $362,000.

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.

2. Short-Term Investments - See Note 3, *Deposits and Investments*.

3. Receivables

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. Receivables have been recorded net of estimated uncollectible amounts, using the allowance method. Estimated uncollectible amounts for accounts receivable are $33,526 at December 31, 2013.

Taxes receivable consists of property taxes and related interest and penalties (See Note 4, *Property Taxes*).

Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

4. Inventory

Inventory is valued at cost using the FIFO (first-in, first-out basis) method, which approximates the market value.

5. Restricted Assets

In accordance with bond resolutions, separate restricted accounts are required. These accounts contain resources for debt service. Specific debt service reserve requirements are described in Note 10, *Long-Term Debt*.

The restricted assets are composed of the following:

Restricted Current Assets, Cash and Cash Equivalents – Debt Service Account	$ 171,694
Restricted Non-Current Assets, Investments – Bond Reserve Account	805,940
Total Restricted Assets	$ 977,634

6. Capital Assets and Depreciation - See Note 5, Capital Assets and Depreciation.

7. Other Property and Investments – See Note 3, Deposits and Investments.

8. Deferred Outflows/Inflows of Resources

In 2005, the Port of Edmonds refunded $3,620,000 of its 1997 General Obligation Bonds for $3,925,000. The difference was recorded as a deferred loss on refunding. The Port implemented GASB Statement Number 65 in 2012. As part of the implementation, the deferred loss on refunding is now shown as a deferred outflow of resources instead of deferred interest on the Statement of Net Position.

9. Employee Leave Benefits

Employee leave benefits are absences for which employees will be paid, such as vacation and holiday leave. The Port records unpaid leave for employee leave benefits as an expense and liability when earned.

Each employee may carry forward 120 hours of vacation pay to the following year. Unused vacation pay is payable upon separation, retirement, or death. Sick leave may accumulate up to 1,000 hours. No accrual is made for sick pay as it expires if unused.

10. Accrued Expenses

These accounts consist of accrued leasehold, payroll, sales, and business taxes, employee withholdings, wages payable, and abandoned property.

11. Long-Term Debt - See Note 10, *Long-Term Debt*.

12. Other Credits –See Note 13, *Other Debits (Credits).*

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. Investments Authorized

The Port may invest in all types of securities approved by State law. Those securities include:

1. Savings or time accounts, including certificates of deposit, in designated qualified public depositories in accordance with RCW 39.58.

2. Certificates of deposit in commercial banks, savings and loan associations, and mutual savings banks doing business in this state, but not holding collateral pursuant to RCW 39.58, in an amount not in excess of FDIC or FSLIC insurance coverage.

3. Certificates, notes, or bonds of the United States, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the government of the United States.

4. Federal home loan bank notes and bonds, Federal land bank bonds, Federal national mortgage association notes, debentures, and guaranteed certificates of participation.

5. Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve systems.

6. Bonds of the state of Washington and any local government in the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

7. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

8. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

9. Washington State Local Government Investment Pool.

Port staff invests surplus cash according to Port Resolution Number 13-12. Investment objectives, in priority order, are safety, liquidity, and return on investment.

C. As of December 31, 2013, the Port had the following investments:

1. Short-Term Investments Included in Cash and Cash Equivalents

Investment	Matures	Fair Value
Washington State Local Government Investment Pool	N/A	$ 37,834

2. Long-Term Investments

Investment	Matures	Fair Value
Federal Home Loan Mortgage Corp	10/14/2016	501,716
Federal Home Loan Bank Bonds	2/28/2017	495,128
Federal National Mortgage Association	1/30/2018	490,209
Bond Purchase Premiums and Discounts		(3,642)
		$ 1,483,410

3. Long-Term Investment Included as Restricted Investments

Investment	Matures	Fair Value
Certificate of Deposit	3/27/2014	805,940

D. Custodial Credit Risk

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities. All security transactions entered into by the Port of Edmonds are conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the Port are delivered against payment and held in a custodial safekeeping account. The Port has designated U.S. Bank as the third party custodian. Safekeeping receipts evidence all transactions. None of the Port's investments are held by counterparties.

E. Interest Rate Risk

Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port's Investment Portfolio. Securities within the portfolio are limited to maturity lengths of five years.

F. Decrease in Fair Value of Investments

Decrease in fair value of investments of $12,948 is the difference between the price at which the Port of Edmonds purchased the $1.5 million in securities and the fair value at December 31, 2013. GASB Statement Number 31, paragraph 7, requires the Port to "…report investments at fair value in the balance sheets. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties…" The market value or fair value is reported to the Port by U.S. Bank, the Port's third party safekeeping bank. This loss is an unrealized loss. If the Port holds the investments to maturity or call date, there will be no realized loss.

NOTE 4 – PROPERTY TAXES

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 is established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized equally over all twelve months. 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 principle, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2013 was approximately $0.1203 per $1,000 on an assessed valuation of $3,324,833,404 for a total regular tax levy of $400,000.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

A. Major expenditures for capital assets in excess of $3,000, 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 operating leases are disclosed in Note 11, *Leases*.

All capital assets are valued at historical cost or estimated historical cost, where historical cost is not known.

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

When an asset is sold, retired, or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, is removed from the Port of Edmonds' capital asset 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.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method based on the following estimated useful lives:

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 15 years
Other Improvements	5 to 99 years

B. Capital assets activity for the year ended December 31, 2013, was as follows:

	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	10,819	601,697	584,754	27,762
Total capital assets, not being depreciated	4,334,494	601,697	584,754	4,351,437
Capital assets, being depreciated				
Buildings	15,039,722	507,131	340	15,546,513
Marina and other improvements	36,176,444	94,573	-	36,271,017
Machinery and equipment	1,147,222	42,442	31,160	1,158,503
Total capital assets being depreciated	52,363,388	644,146	31,501	52,976,033
Less accumulated depreciation for				
Buildings	4,760,907	571,054	252	5,331,708
Marina and other improvements	17,132,166	980,832	-	18,112,998
Machinery and equipment	687,856	107,733	31,160	764,429
Total accumulated depreciation	22,580,929	$ 1,659,619	$ 31,413	$ 24,209,135
Total capital assets, being depreciated, net	$ 29,782,459			$ 28,766,898

NOTE 6 – CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2013.

At year-end, the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Breakwater Navigational Aids & Lights	$ 3,438	$ -
Fuel Dock Equipment Upgrade	$ 632	
Launcher Upgrades	$ 20,733	
Administration Office Remodel	$ 2,958	
	$ 27,761	$ -

NOTE 7 – PENSION PLANS

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

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

Plan Description

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

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

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

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

For DRS’ Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

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

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

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

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

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

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

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

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

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

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

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

Funding Policy

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

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

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

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

Members Not Participating in JBM:

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

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

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

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2013	$8,497	$105,063	$2,491
2012	$8,466	$92,688	$516
2011	$12,626	$76,663	$-0-

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The requirements of this Statement are effective in three phases. The Port of Edmonds is a phase 3 government, and was required to adopt this Statement for fiscal periods beginning after December 15, 2008. The Port adopted this standard in 2009.

As per the GASB Statement No. 45 Summary, "In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment 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

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

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

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

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

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.

PEBB has also historically provided subsidized basic life insurance (Plan A) coverage to retirees. This was an explicit life insurance subsidy set up by the PEBB Board and approved as part of the budget process. However, beginning January 1, 2012, the PEBB Board has eliminated the explicit life insurance subsidy on a permanent basis.

Before 2009, these subsidies were not projected and accounted for under accrual basis accounting. Accrual accounting is meant to match the timing between when something occurs and when it is accounted for. In this case, it is meant to match the expense to the year in which the benefits are earned by the member.

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 2009, this cost was expensed as the Port paid the current year's subsidies. However, the unfunded liability, which is the difference between what the Port accrues (assuming on-going future payments) and what the Port currently pays, was growing and was not accounted for under the pay-as-you-go method.

GASB Statement No. 45 was created in an attempt to:

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

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

D. Annual OPEB Cost and Net OPEB Obligation

The Port's annual other postemployment benefit (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 thirty 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 $403,631 is included as a noncurrent liability in the Statement of Net Position.

	Fiscal Year Ending 12/31/2011	Fiscal Year Ending 12/31/2012	Fiscal Year Ending 12/31/2013
Determination of Annual Required Contribution:			
Normal Cost at Year End	$ 43,206	$ 42,567	$ 51,777
Amortization of Unfunded Actuarial Accrued Liability	35,816	35,107	46,194
Annual Required Contribution	$ 79,022	$ 77,674	$ 97,971
Determination of Annual OPEB Cost:			
Annual Required Contribution	$ 79,022	$ 77,674	$ 97,971
Net OPEB Obligation Interest	7,966	11,096	14,223
Net OPEB Obligation Amortizaton	(10,868)	(15,138)	(19,404)
Annual OPEB Cost	$ 76,120	$ 73,632	$ 92,790
Determination of Net OPEB Obligation:			
Starting Net OPEB Obligation	$ 177,032	$ 246,576	$ 316,068
Annual OPEB Cost	76,120	73,632	92,790
Contributions	(6,576)	(4,140)	(5,227)
Net OPEB Obligation	$ 246,576	$ 316,068	$ 403,631

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2012, and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2011	$ 76,120	8.64%	$ 246,576
12/31/2012	$ 73,632	5.62%	$ 316,068
12/31/2013	$ 92,790	5.63%	$ 403,631

E. Funded Status and Funding Progress

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. Even if the Port left the PEBB program, the Port would not be able to get the money out of the trust. As of December 31, 2013, the plan was 0% funded.

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

F. Actuarial Methods and Assumptions

The Port used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.20 was assumed for all active members to determine the Actuarial Accrued Liability and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2010 actuarial valuation report issued by the Office of the State Actuary. Healthcare costs and trends were determined by Milliman and used by the Office of the State Actuary in the state-wide PEBB study performed in 2011. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the Actuarial Accrued Liability was Projected Unit Credit. The Actuarial Accrued Liability and the Net OPEB Obligations are amortized on an open basis as a level dollar over thirty years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 9 – RISK MANAGEMENT

The Port of Edmonds is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987, pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there were 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

- $1,000,000 deductible on liability loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $995,000 on liability loss;
- $250,000 deductible on property loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $245,000 on property loss.
- Enduris is responsible for $0 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven board members governs Enduris. Board members serve a specific term, and are elected by the Enduris member participants. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 10 – LONG-TERM DEBT

The Port of Edmonds issues general obligation and revenue bonds to finance the acquisition, purchase, or construction of various projects. Bonded indebtedness was also entered into in 1998 and 2005 to advance refund several general obligation and revenue bonds. Both general obligation bonds and revenue bonds are repaid from revenues.

A. General Obligation Bonds

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2013 Installment
Refund 1997 G.O. Bonds	2017	3.00-4.10%	$ 3,925,000	$ 645,000

The annual debt service requirements to maturity of general obligation bonds are as follows:

Year Ending	2005 G.O. & Refunding Bonds	
December 31	Principal	Interest
2014	675,000	102,833
2015	705,000	75,233
2016	735,000	46,249
2017	765,000	15,683
Total	$ 2,880,000	$ 239,996

B. Revenue Bonds

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2013 Installment
Refund of 1992 revenue bonds and capital projects including marina reconstruction, bulkhead/promenade project, a new dry stack storage facility	2017	3.75% - 4.80%	$ 8,590,000	$ 260,000
Refund of 2006 Special Revenue Bond which was used to acquire Harbor Square buildings	2021	5.25%	$ 7,898,115	$ 877,157

The annual debt service requirements to maturity of revenue bonds are as follows:

Year Ending	1998 Rev. and Ref. Bonds		2011 Special Rev. Ref. Bonds	
December 31	Principal	Interest	Principal	Interest
2014	275,000	56,263	177,524	395,957
2015	-	43,200	187,207	386,274
2016	-	43,200	196,338	377,144
2017	900,000	43,200	208,129	365,353
2018	-	-	219,482	354,000
2019-2021	-	-	5,451,635	910,980
Total	$ 1,175,000	$ 185,863	$ 6,440,315	$ 2,789,708

From the time the bonds were issued until 2011, unamortized debt issuance costs were recorded as deferred charges and bonds were displayed net of premium or discount on the Statement of Net Assets, which was changed to the Statement of Net Position in 2012. During the implementation of GASB Statement Number 65 in 2012, the Port wrote off debt issuance costs as a prior period adjustment, as GASB concluded that these costs should be recognized as an outflow of resources in the reporting period in which they are incurred. The Port is continuing to decrease annual interest expense by amortizing debt premium and to increase annual interest expense by amortizing debt discounts.

At December 31, 2013, the Port had $977,634 available in sinking funds and reserves as required by bond indentures. These amounts are shown as Restricted Assets, Cash and Cash Equivalents and Restricted Assets, Investments on the Statement of Net Position.

The Port has pledged future marina operations and property lease revenue other than Harbor Square Property revenue, net of normal costs of maintenance and operation of the facilities of the Port and normal costs of administration of the business of the Port not paid from general tax levies but before depreciation, to repay $8,590,000 in Revenue and Refunding Bonds issued in January 1998. Proceeds from the bonds provided financing for refunding the Port's 1992 Revenue Bonds, marina reconstruction, a bulkhead/promenade project, construction of a new dry stack storage facility, and other projects listed in the Port's 1998 Capital Budget. The bonds are payable solely from marina operations and property lease revenue other than Harbor Square Property revenue and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 57% of net revenues. The total principal and interest remaining to be paid on the bonds is $1,360,863. Principal and interest paid for the current year were $328,483. Pledged revenues were $5,655,177.

The Port has pledged future Harbor Square Property revenue and net revenues of the Port available after satisfying all requirements set forth the in 1998 Revenue and Refunding Bond agreement, to repay $7,898,115 in Special Revenue Refunding Bonds issued in August 2011. Proceeds from the 2011 bonds provided financing for refunding the 2006 Special Revenue Bond. Proceeds from the 2006 Special Revenue Bond were used to purchase the Harbor Square buildings and leasehold interest in the Harbor Square Property. The bonds are payable from Harbor Square revenue and net revenues of the Port available after satisfying all requirements set forth in the 1998 Revenue and Refunding Bond agreement, and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 59% of Harbor Square Property net revenues. The total principal and interest remaining to be paid on the bonds is $9,230,023. Principal and interest paid for the current year were $1,254,392. Pledged Harbor Square revenues were $1,493,716.

The 1998 Revenue and Refunding Bonds are subject to federal arbitrage regulations. The Port is required to comply with certain requirements of the Internal Revenue Code of 1986, after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The Port has covenanted in the Bond Resolution to comply with those requirements, but if the Port fails to comply, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. The Port is required to calculate arbitrage every five years. The most recent calculation was completed February 28, 2013 for the period of January 30, 1998 to January 30, 2013. There was no rebate installment payment due to the Internal Revenue Service for this computation period.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Bonds Payable:					
G.O. and Refunding Bonds	$ 3,525,000	$ -	$ 645,000	$ 2,880,000	$ 675,000
Revenue & Refunding Bonds	8,752,473	-	1,137,157	7,615,316	452,524
Add Unamortized Amounts:					
For bond premiums	3,946	-	1,279	2,667	
Total bonds payable	12,281,419	-	1,783,436	10,497,983	1,127,524
Employee leave benefits	91,594	158,760	155,060	95,294	
Other post employment benefits	316,068	92,790	5,227	403,631	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	$13,301,581	$ 251,550	$ 1,943,723	$ 11,609,408	$1,127,524

NOTE 11 - LEASES

A. Port as Lessee

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

B. Port as Lessor

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

The Port currently has approximately 40 noncancelable lease arrangements ranging in monthly payments between $25 and $25,000 with either fixed increases from one to three percent, Consumer Price Index rent escalation clauses, or market rate rent escalation clauses. Approximately 18 of the noncancelable leases include contract terms allowing one to five lease extensions in 1 to 15 year terms.

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

Year Ending December 31	Minimum Rental Income
2014	$ 1,650,655
2015	$ 1,567,982
2016	$ 1,043,921
2017	$ 679,137
2018	$ 625,302
2019-2023	$ 2,433,452
2024-2028	$ 1,248,330
2029-2033	$ 846,952
2034-2038	$ 494,015
2039-2043	$ 270,915
2044	$ 12,420
Total	$ 10,873,079

The Port's leased properties involved are in part used by internal Port operations, or in part of a building with land, and/or parts of a land parcel. Therefore, 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 12 – CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes that it is probable that the Port will have to make payment.

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. Port management believes that such disallowances, if any, will be immaterial.

NOTE 13 – OTHER DEBITS (CREDITS)

At December 31, 2013, the Port held $103,095 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2014.

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS

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

In November 2006, the Governmental Accounting Standards Board issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007. The Port adopted this standard in 2008.

GASB Statement No. 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB Statement No. 49 identifies five "obligating events" that require a government agency to disclose future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the government agency must document the components of expected pollution remediation outlays that are reasonably estimable. At this time, the Port has determined that future cleanup costs associated with one site constitute the Port's pollution remediation obligations.

A. Nature and Source of Pollution Remediation Obligations

From 2003 to 2006, the Port of Edmonds was involved in cleaning up a property known as the Harbor Square property, which was purchased by the Port from the Union Oil Company in 1978.

GASB concluded that these costs should be recognized as an outflow of resources in the reporting period in which they are incurred.

NOTE 18 – OTHER DISCLOSURES

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Edmonds (the Port) was incorporated in December 1948, and operates under the laws of the State of Washington applicable to a public port district. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

The Port of Edmonds implemented Governmental Accounting Standards Board (GASB) Statement Number 63 in 2012. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

As allowed by the Governmental Accounting Standards Board (GASB), the Port of Edmonds has chosen early implementation of GASB Statement Number 65. The Port implemented this Statement in 2012.

A. Reporting Entity

The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through user charges.

The Port is governed by an elected five member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the Port's activity are included on the statements of net position (or balance sheets). The reported fund position is segregated into net investment in capital assets and 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 its operating, noncapital financing, capital and related financing, and investing activities.

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

The Port distinguishes between operating revenues and expenses and nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for boating services. The Port also recognizes land and building lease revenue as operating revenue. Operating expenses for the district include general operations, maintenance, general and administrative, and depreciation. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2012, the treasurer was holding $8,381,267 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents and restricted assets, cash and cash equivalents.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2012 were approximately $327,000.

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.

2. Short-Term Investments - See Note 3, *Deposits and Investments*.

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 4, *Property Taxes*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for accounts receivable are $15,000 at December 31, 2012.

4. Inventory

Inventory is valued at cost using the FIFO (first-in, first-out basis) method, which approximates the market value.

5. Restricted Assets

In accordance with bond resolutions, separate restricted accounts are required. These accounts contain resources for debt service. Specific debt service reserve requirements are described in Note 10, *Long-Term Debt*.

The restricted assets are composed of the following:

Restricted Current Assets, Cash and Cash Equivalents – Debt Service Account	$ 174,242
Restricted Non-Current Assets, Investments – Bond Reserve Account	801,930
Total Restricted Assets	$ 976,172

6. Capital Assets and Depreciation - See Note 5, *Capital Assets and Depreciation.*

7. Deferred Outflows/Inflows of Resources

In 2005, the Port of Edmonds refunded $3,620,000 of its 1997 General Obligation Bonds for $3,925,000. The difference was recorded as a deferred amount on refunding. The Port implemented GASB Statement Number 65 in 2012. As part of the implementation, the deferred amount on refunding is now shown as a deferred outflow of resources instead of deferred interest on the Statement of Net Position.

8. Employee Leave Benefits

Employee leave benefits are absences for which employees will be paid, such as vacation and holiday leave. The Port records unpaid leave for employee leave benefits as an expense and liability when earned.

Each employee may carry forward 120 hours of vacation pay to the following year. Unused vacation pay is payable upon separation, retirement, or death. Sick leave may accumulate up to 1,000 hours. No accrual is made for sick pay as it expires if unused.

9. <u>Accrued Expenses</u>

   These accounts consist of accrued leasehold, payroll, sales, and business taxes, employee withholdings, wages payable, and abandoned property.

10. <u>Long-Term Debt</u> - See Note 10, *Long-Term Debt* and Note 12, *Changes in Long-Term Liabilities*.

11. <u>Other Debits (Credits)</u> –See Note 14, *Other Debits (Credits).*

<u>NOTE 2 – VIOLATIONS OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISIONS</u>

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

<u>NOTE 3 – DEPOSITS AND INVESTMENTS</u>

A. <u>Deposits</u>

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. <u>Investments</u>

The Port may invest in all types of securities approved by State law. Those securities include:

1. Savings or time accounts, including certificates of deposit, in designated qualified public depositories in accordance with RCW 39.58.

2. Certificates of deposit in commercial banks, savings and loan associations, and mutual savings banks doing business in this state, but not holding collateral pursuant to RCW 39.58, in an amount not in excess of FDIC or FSLIC insurance coverage.

3. Certificates, notes, or bonds of the United States, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the government of the United States.

4. Bankers' acceptances purchased on the secondary market.

5. Federal home loan bank notes and bonds, Federal land bank bonds, Federal national mortgage association notes, debentures, and guaranteed certificates of participation.

6. Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve systems.

7. Bonds of the state of Washington and any local government in the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

8. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

9. Shares of mutual funds with portfolios consisting of only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds described in (11) or (12).

10. Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.

11. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

12. Washington State Local Government Investment Pool.

Port staff invests surplus cash according to Port Resolution Number 05-13. Investment objectives, in priority order, are safety, liquidity, and return on investment.

As of December 31, 2012, the Port had the following investment:

Certificate of deposit	Matures March 27, 2014	$801,930

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities. None of the Port's investments are held by counterparties.

NOTE 4 – PROPERTY TAXES

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 is established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized equally over all twelve months. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2012 was approximately $0.1158 per $1,000 on an assessed valuation of $3,453,251,451 for a total regular tax levy of $400,000.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

A. Major expenditures for capital assets in excess of $3,000, 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 operating leases are disclosed in Note 11, *Leases*.

All capital assets are valued at historical cost or estimated historical costs, where historical cost is not known.

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

When an asset is sold, retired, or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, is removed from the Port of Edmonds' capital asset 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.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method based on the following estimated useful lives:

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 15 years
Other Improvements	5 to 99 years

B. Capital assets activity for the year ended December 31, 2012, was as follows:

	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	-	10,819	-	10,819
Total capital assets, not being depreciated	4,323,675	10,819	-	4,334,494
Capital assets, being depreciated				
Buildings	15,023,437	16,284	-	15,039,721
Marina and other improvements	36,071,718	104,726	-	36,176,444
Machinery and equipment	1,140,204	31,992	24,973	1,147,222
Total capital assets being depreciated	52,235,359	153,002	24,973	52,363,388
Less accumulated depreciation for				
Buildings	4,189,475	571,432	-	4,760,907
Marina and other improvements	16,153,496	978,670	-	17,132,166
Machinery and equipment	606,436	106,393	24,973	687,856
Total accumulated depreciation	20,949,407	$ 1,656,495	$ 24,973	$ 22,580,929
Total capital assets, being depreciated, net	$ 31,285,952			$ 29,782,459

NOTE 6 – CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2012. The projects include Marina Operations Storage Shed.

At year-end, the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Marina Operations Storage Shed	$ 10,819	$ -
	$ 10,819	$ -

NOTE 7 – PENSION PLANS

Substantially all Port full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and GASB Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to PERS Plan 1 and Plan 2 defined benefits plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired for 20 years, or who have 20 years of service and have been retired for 25 years. If a survivor option is chosen, the benefit is further reduced. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's accumulated contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members.

Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on- the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-Vested	46,839
Total	261,705

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 8,466	$ 92,688	$ 516
2011	$ 12,626	$ 76,663	$ -
2010	$ 11,100	$ 58,594	$ 1,229

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The requirements of this Statement are effective in three phases. The Port of Edmonds is a phase 3 government, and was required to adopt this Statement for fiscal periods beginning after December 15, 2008. The Port adopted this standard in 2009.

As per the GASB Statement No. 45 Summary, "In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment 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

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

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

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

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

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.

PEBB has also historically provided subsidized basic life insurance (Plan A) coverage to retirees. This was an explicit life insurance subsidy set up by the PEBB Board and approved as part of the budget process. However, beginning January 1, 2012, the PEBB Board has eliminated the explicit life insurance subsidy on a permanent basis.

Before 2009, these subsidies were not projected and accounted for under accrual basis accounting. Accrual accounting is meant to match the timing between when something occurs and when it is accounted for. In this case, it is meant to match the expense to the year in which the benefits are earned by the member.

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 2009, this cost was expensed as the Port paid the current year's subsidies. However, the unfunded liability, which is the difference between what the Port accrues (assuming on-going future payments) and what the Port currently pays, was growing and was not accounted for under the pay-as-you-go method.

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

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

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

D. Annual OPEB Cost and Net OPEB Obligation

The Port's annual other postemployment benefit (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 thirty 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 $316,068 is included as a noncurrent liability in the Statement of Net Position.

		Fiscal Year Ending 12/31/2010		Fiscal Year Ending 12/31/2011		Fiscal Year Ending 12/31/2012
Determination of Annual Required Contribution:						
Normal Cost at Year End	$	52,251	$	43,206	$	42,567
Amortization of Unfunded Actuarial Accrued Liability		44,994		35,816		35,107
Annual Required Contribution	$	97,245	$	79,022	$	77,674
Determination of Annual OPEB Cost:						
Annual Required Contribution	$	97,245	$	79,022	$	77,674
Net OPEB Obligation Interest		3,930		7,966		11,096
Net OPEB Obligation Amortizaton		(5,362)		(10,868)		(15,138)
Annual OPEB Cost	$	95,813	$	76,120	$	73,632
Determination of Net OPEB Obligation:						
Starting Net OPEB Obligation	$	87,345	$	177,032	$	246,576
Annual OPEB Cost		95,813		76,120		73,632
Contributions		(6,126)		(6,576)		(4,140)
Net OPEB Obligation	$	177,032	$	246,576	$	316,068

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011, and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2010	$ 95,813	6.39%	$ 177,032
12/31/2011	$ 76,120	8.64%	$ 246,576
12/31/2012	$ 73,632	5.62%	$ 316,068

E. Funded Status and Funding Progress

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. Even if the Port left the PEBB program, the Port would not be able to get the money out of the trust. As of December 31, 2012, the plan was 0% funded.

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

F. Actuarial Methods and Assumptions

The Port used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.20 was assumed for all active members to determine the Actuarial Accrued Liability and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2010 actuarial valuation report issued by the Office of the State Actuary. Healthcare costs and trends were determined by Milliman and used by the Office of the State Actuary in the state-wide PEBB study performed in 2011. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the Actuarial Accrued Liability was Projected Unit Credit. The Actuarial Accrued Liability and the Net OPEB Obligations are amortized on an open basis as a level dollar over thirty years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 9 – RISK MANAGEMENT

The Port of Edmonds is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987, pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2012, there were 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

- $1,000,000 deductible on liability loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $995,000 on liability loss;
- $250,000 deductible on property loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $245,000 on property loss. Enduris is responsible for $0 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven board members governs Enduris. Board members serve a specific term, and are elected by the Enduris member participants. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 10 – LONG-TERM DEBT

The Port of Edmonds issues general obligation and revenue bonds to finance the acquisition, purchase, or construction of various projects. Bonded indebtedness has also been entered into in 1998 and 2005 to advance refund several general obligation and revenue bonds. Both general obligation bonds and revenue bonds are repaid from revenues.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2012 Installment
Refund 1997 G.O. Bonds	2017	3.00-4.10%	$ 3,925,000	$ 70,000

The annual debt service requirements to maturity of general obligation bonds are as follows:

Year Ending	2005 G.O. & Refunding Bonds	
December 31	Principal	Interest
2013	645,000	129,233
2014	675,000	102,833
2015	705,000	75,233
2016	735,000	46,249
2017	765,000	15,683
Total	$ 3,525,000	$ 369,229

RCW 39.36 limits the amount of general obligation debt that the Port may issue. Bond indebtedness without a vote is limited to .25% of the assessed value of the taxable property in the Port District.

At December 31, 2012, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	$ 3,453,251,451
General Purpose Indebtedness Available Without a Vote	8,633,129
Indebtedness Incurred	4,501,964
Margin of Indebtedness Available Without a Vote	$ 4,131,165

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2012 Installment
Refund of 1992 revenue bonds and capital projects including marina reconstruction, bulkhead/promenade project, a new dry stack storage facility	2017	3.75% - 4.80%	$ 8,590,000	$ 760,000
Refund of 2006 Special Revenue Bond which was used to acquire Harbor Square buildings	2021	5.25%	$ 7,898,115	$ 480,961

The annual debt service requirements to maturity of revenue bonds are as follows:

Year Ending	1998 Rev. and Ref. Bonds		2011 Special Rev. Ref. Bonds	
December 31	Principal	Interest	Principal	Interest
2013	260,000	68,483	168,342	405,140
2014	275,000	56,263	177,524	395,957
2015	285,000	43,200	187,207	386,274
2016	300,000	29,520	196,338	377,144
2017	315,000	15,120	208,129	365,353
2018-2021	-	-	6,379,933	1,264,980
Total	$ 1,435,000	$ 212,585	$ 7,317,473	$ 3,194,848

From the time the bonds were issued until 2011, unamortized debt issuance costs were recorded as deferred charges and bonds are displayed net of premium or discount on the Statement of Net Assets, which is the Statement of Net Position in the 2012 annual report. During the implementation of GASB Statement Number 65 in 2012, the Port wrote off debt issuance costs as a prior period adjustment, as GASB concluded that these costs should be recognized as an outflow of resources in the reporting period in which they are incurred. The Port is continuing to decrease annual interest expense by amortizing debt premium and to increase annual interest expense by amortizing debt discounts.

At December 31, 2012, the Port had $976,172 available in sinking funds and reserves as required by bond indentures. These amounts are shown as Restricted Assets, Cash and Cash Equivalents and Restricted Assets, Investments on the Statement of Net Position.

The Port has pledged future marina operations and property lease revenue other than Harbor Square Property revenue, net of normal costs of maintenance and operation of the facilities of the Port and normal costs of administration of the business of the Port not paid from general tax levies but before depreciation, to repay $8,590,000 in Revenue and Refunding Bonds issued in January 1998. Proceeds from the bonds provided financing for refunding the Port's 1992 Revenue Bonds, marina reconstruction, a bulkhead/promenade project, construction of a new dry stack storage facility, and other projects listed in the Port's 1998 Capital Budget. The bonds are payable solely from marina operations and property lease revenue other than Harbor Square Property revenue and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 47% of net revenues. The total principal and interest remaining to be paid on the bonds is $1,647,585. Principal and interest paid for the current year were $863,823. Pledged revenues were $5,396,571.

The Port has pledged future Harbor Square Property revenue and net revenues of the Port available after satisfying all requirements set forth the in 1998 Revenue and Refunding Bond agreement, to repay $7,898,115 in Special Revenue Refunding Bonds issued in August 2011. Proceeds from the 2011 bonds provided financing for refunding the 2006 Special Revenue Bond.

Proceeds from the 2006 Special Revenue Bond were used to purchase the Harbor Square buildings and leasehold interest in the Harbor Square Property. The bonds are payable from Harbor Square revenue and net revenues of the Port available after satisfying all requirements set forth in the 1998 Revenue and Refunding Bond agreement, and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 64% of Harbor Square Property net revenues. The total principal and interest remaining to be paid on the bonds is $10,512,321. Principal and interest paid for the current year were $885,600. Pledged Harbor Square revenues were $1,542,941.

The 1998 Revenue and Refunding Bonds are subject to federal arbitrage regulations. The Port is required to comply with certain requirements of the Internal Revenue Code of 1986, after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The Port has covenanted in the Bond Resolution to comply with those requirements, but if the Port fails to comply, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. The Port is required to calculate arbitrage every five years. The most recent calculation was completed February 28, 2013 for the period of January 30, 1998 to January 30, 2013. There was no rebate installment payment due to the Internal Revenue Service for this computation period.

NOTE 11 - LEASES

Operating Leases

The Port leases two copiers under an operating lease that is cancelable annually. The total cost for that lease was $6,964 for the year ended December 31, 2012. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2013	4,423
2014	4,423
2015	4,423
2016	1,106
Total	$ 14,374

NOTE 12 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Bonds Payable:					
G.O. and Refunding Bonds	$ 3,595,000	$ -	$ 70,000	$ 3,525,000	$ 645,000
Revenue & Refunding Bonds	9,993,434	-	1,240,961	8,752,473	428,342
Less Deferred Amounts:					
For issuance costs	84,744	-	84,744	-	
Add Deferred Amounts:					
For bond premiums	5,250	-	1,303	3,946	
Total bonds payable	13,508,940	-	1,227,520	12,281,419	1,073,342
Employee leave benefits	84,026	157,195	149,627	91,594	
Other post employment benefits	246,576	73,632	4,140	316,068	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	$14,452,042	$ 230,827	$1,381,287	$13,301,581	$1,073,342

NOTE 13 – CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes that it is probable that the Port will have to make payment.

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. Port management believes that such disallowances, if any, will be immaterial.

NOTE 14 – OTHER DEBITS (CREDITS)

At December 31, 2012, the Port held $99,386 in Unearned Revenues. These amounts are prepayments of rent and will be recognized as revenue in 2013.

NOTE 15 – POLLUTION REMEDIATION OBLIGATIONS

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

In November 2006, the Governmental Accounting Standards Board issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007. The Port adopted this standard in 2008.

GASB Statement No. 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB Statement No. 49 identifies five "obligating events" that require a government agency to disclose future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the government agency must document the components of expected pollution remediation outlays that are reasonably estimable. At this time, the Port has determined that future cleanup costs associated with one site constitute the Port's pollution remediation obligations.

A. Nature and Source of Pollution Remediation Obligations

From 2003 to 2006, the Port of Edmonds was involved in cleaning up a property known as the Harbor Square property, which was purchased by the Port from the Union Oil Company in 1978. From 1924 to 1968, portions of the property were used as an oil and gasoline depot and distribution facility, a railcar cleaning facility, an asphalt batch plant, and heavy-equipment storage. Several remedial investigations were conducted at the property from 1989 to 2003. In June 2003, a supplemental site investigation was conducted at the direction of the Department of Ecology to further define the extent of contamination at the property identified during previous investigations, to help identify any additional areas of contamination, and to further evaluate any impacts to groundwater. The Port developed a remediation plan based on that investigation, and commenced cleanup activities.

The Port's environmental engineering firm, Landau Associates, prepared a report for the Port of Edmonds in November 2003 that provided estimates of the cost of remediation activities at the Port of Edmonds' Harbor Square complex due to past industrial activities at the site. The estimated costs presented in the report are for all remediation activities anticipated at the site, which are described as Phase I through Phase III remediation in the report. Phase I and Phase II remediation efforts were essentially completed in 2005 and 2006. Phase III remediation remains to be completed.

B. Amount of Estimated Liability

The estimated cost of Phase III remediation was a range of \$150,000 to \$900,000, reflecting the uncertainty of the extent of contamination under existing structures that could not be readily accessed for assessment. Landau Associates estimates the liability to the Port of Edmonds associated with the future cleanup of known areas of contamination on Port property to be \$175,000 to \$1,050,000 (in 2008 dollars). The middle point of this estimated range is \$612,500.

The Governmental Accounting Standards Board implemented new standards for recording pollution remediation obligations for financial periods beginning after December 15, 2007. The

Port increased its liability from $175,000 in 2007 to $612,500 in 2008 in accordance with these standards.

As per GASB Statement No. 49, "Estimates of a pollution remediation liability should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays due to, for example, changes in the remediation plan or operating conditions. These changes may include the type of equipment, facilities, and services that will be used, price increases or reductions for specific outlay elements such as ongoing monitoring requirements, changes in technology, and changes in legal or regulatory requirements."

The Port did not meet any benchmarks or receive new information that indicates changes in estimated outlays in 2012. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2012.

C. Methods and Assumptions Used for the Estimate

The majority of the contamination to be addressed in Phase III remediation is located under existing buildings; some areas of residual contamination (expected to be relatively small) are located outside building footprints, but underneath paved surfaces. Phase III activities were not undertaken due to the inaccessibility of the contaminated areas, although the Port has committed to remediation at such time that the structures at the Harbor Square complex are removed for future development.

The Port has chosen to use only the best case and worse case for the ranges of potential outcomes. As the Port does not have a reasonable basis for specifying the probability and amount of a most likely potential cash flow, it is using only two data points, a range of $175,000 to $1,050,000.

D. Potential for Changes

As Phase III remediation may only be completed when the Harbor Square property is redeveloped, this estimate may be revised due to price increases or reductions, technology, and applicable laws or regulations.

E. Estimated Recoveries Reducing the Liability

The Port does not expect to receive any recoveries to reduce this liability.

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

Costs relating to the sale of bonds in 1998, 2005, 2006, and 2011 were recorded and amortized over the lives of the various bond issues in previous financial statements. During the implementation of GASB Statement Number 65 in 2012, the Port wrote off the remaining unamortized debt issuance costs of $85,405 as a change in accounting principle, as GASB concluded that these costs should be recognized as an outflow of resources in the reporting period in which they are incurred.

NOTE 17 - EXTRAORDINARY/SPECIAL ITEMS

On December 31, 2011, two boats moored at the Port of Edmonds caught fire, causing damage to the Port's floats, dock, roof, roof supports, and electrical system that provides lighting on the dock. A claim for damages was filed with the Port of Edmonds' insurance company, and they agreed to pay for repairs to the Port's facility, less the Port's deductible of $5,000. If the fire investigators determine a responsible party, it is likely that the Port's insurance company will subrogate to the responsible party's insurance company.

GASB Statement Number 42 requires that the loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year. In 2011, the Port estimated that the total loss would be $224,859. In 2012, the Port determined that the actual loss was an additional $107,399.

In February 2012, the Port received an advance of $30,000 from its insurance company. The remaining amount of reimbursement is $312,525, which was received in April 2013. Some of the reimbursement was for Port services, which were recorded as marina revenues in the 2012 financial statements.

2012 insurance reimbursements are shown net of 2012 associated expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

NOTE 18 – OTHER DISCLOSURES

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

PORT OF EDMONDS
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OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
December 31, 2009	$ -	$ 668,333	$ 668,333	0.00%	$ 1,368,184	48.85%
December 31, 2010	$ -	$ 732,909	$ 732,909	0.00%	$ 1,346,291	54.44%
December 31, 2011	$ -	$ 583,392	$ 583,392	0.00%	$ 1,199,530	48.64%
December 31, 2012	$ -	$ 571,853	$ 571,853	0.00%	$ 1,197,544	47.75%
December 31, 2013	$ -	$ 752,446	$ 752,446	0.00%	$ 1,301,336	57.82%

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Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
December 31, 2009	$ -	$ 668,333	$ 668,333	0.00%	$ 1,368,184	48.85%
December 31, 2010	$ -	$ 732,909	$ 732,909	0.00%	$ 1,346,291	54.44%
December 31, 2011	$ -	$ 583,392	$ 583,392	0.00%	$ 1,199,530	48.64%
December 31, 2012	$ -	$ 571,853	$ 571,853	0.00%	$ 1,197,544	47.75%

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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