Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Edmonds

For the period January 1, 2016 through December 31, 2017

Published December 31, 2018
Report No. 1022911

Office of the Washington State Auditor
Pat McCarthy

December 31, 2018

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,

Pat McCarthy

State Auditor

Olympia, WA

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Port of Edmonds
January 1, 2016 through December 31, 2017

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, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated December 18, 2018.

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 opinions 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.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

December 18, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Edmonds
January 1, 2016 through December 31, 2017

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, as of and for the years ended December 31, 2017 and 2016, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 December 18, 2018 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.

Pat McCarthy

State Auditor

Olympia, WA

December 18, 2018

FINANCIAL SECTION

Port of Edmonds
January 1, 2016 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017 and 2016
Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016
Statement of Cash Flows – 2017 and 2016
Notes to Financial Statements – 2017 and 2016

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Schedule of Funding Progress – 2017 and 2016
Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2017 and 2016
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2017 and 2016

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, 2017. 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 and tourism within their districts. Ports are often, though not always, involved in transportation activities.

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

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

Governmental accounting falls under the control of the Governmental 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 the 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 for capital investments. 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, to supplement the cost of public amenities, and to promote economic development and tourism.

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 2017, the Port's Net Position increased by $1,467,359 or 4%, which shows that the Port of Edmonds performed better in 2017 than in 2016. Cash flows show if the Port is spending more money than it received. In 2017, the Port of Edmonds spent $998,341 more than it received, while making $2,136,841 in bond principal and interest payments, thereby reducing debt. Total cash and investments increased by $1,707,901 from 2016 to 2017. Overall, the Port is in a better financial position than it was in 2016.

FINANCIAL HIGHLIGHTS

The Port's 2017 marina operations revenues were $5,970,132, an increase of $525,527 or 10% over than the previous year. Increases are due to increases in occupancy, rates, and marina activity. 2017 property/lease rental operations revenues were $2,553,482, an increase of

$196,400 or 8% greater than the previous year. This is partially due to an increase in lease rates and partially due to an increase in occupancy. As of December 31, 2017, the Port's Harbor Square business park was 94% occupied. The Port's 2017 non-operating revenues were $541,237, an increase of $59,159, or 12% greater than the previous year.

The Port's 2017 operating expenses were $6,764,355, an increase of $551,844 or 9% greater than the previous year's operating expense levels. The Port's non-operating expenses were $328,480, a decrease of $954 from the previous year's non-operating expense levels.

The Port's operating income was $1,759,259 in 2017, as compared to $1,589,176 in 2016.

In 2017, the Port's net position increased by $1,972,016.

The Port's assets exceeded its liabilities by $35,513,059 (net position) as of December 31, 2017.

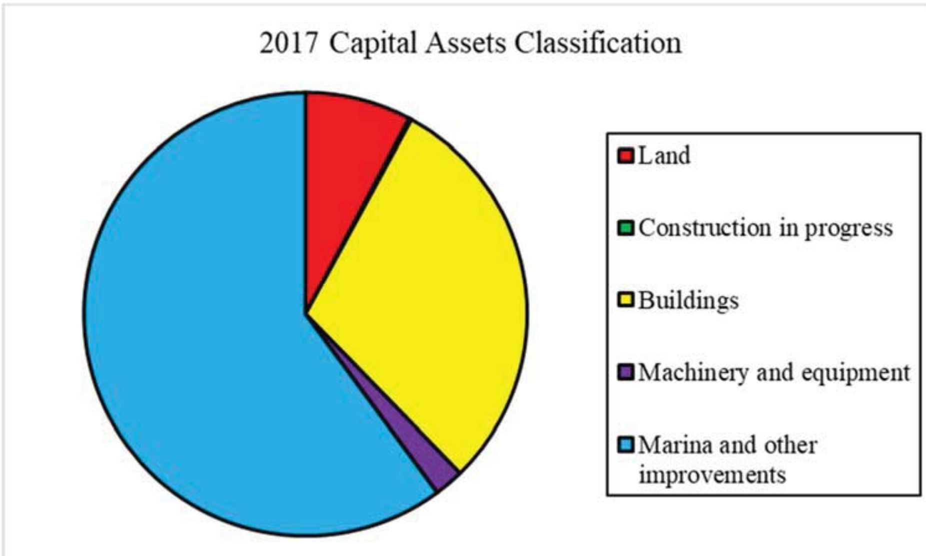
FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

Summary of Statement of Net Position

	2017	2016	Increase (Decrease)	% Change
Current Assets	$ 7,277,445	$ 8,246,407	$ (968,962)	-12%
Investments	6,201,137	4,194,890	2,006,247	48%
Noncurrent Restricted Assets	699,995	-	699,995	100%
Capital Assets, Net	28,054,025	30,166,088	(2,112,063)	-7%
Total Assets	42,232,602	42,607,385	(374,783)	-1%
Deferred Outflows of Resources	179,994	277,821	(97,827)	-35%
Total Assets and Deferred Outflows of Resources	42,412,596	42,885,206	(472,610)	-1%
Current Liabilities	2,579,369	1,996,770	582,599	29%
Noncurrent Liabilities	4,110,508	6,797,451	(2,686,943)	-40%
Total Liabilities	6,689,877	8,794,221	(2,104,344)	-24%
Deferred Inflows of Resources	209,660	45,285	164,375	363%
Net investment in capital assets	25,242,718	25,344,231	(101,513)	0%
Unrestricted	10,270,341	8,701,469	1,568,872	18%
Total Net Position	35,513,059	34,045,700	1,467,359	4%
Total Liabilities, Deferred Inflows of Revenues, and Net Position	$ 42,412,596	$ 42,885,206	$ (472,610)	-1%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2017, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $1,467,359 or 4% in 2017. $25,242,718 of the Port's Net Position reflects the Port's net investment in capital assets.

CAPITAL ASSETS



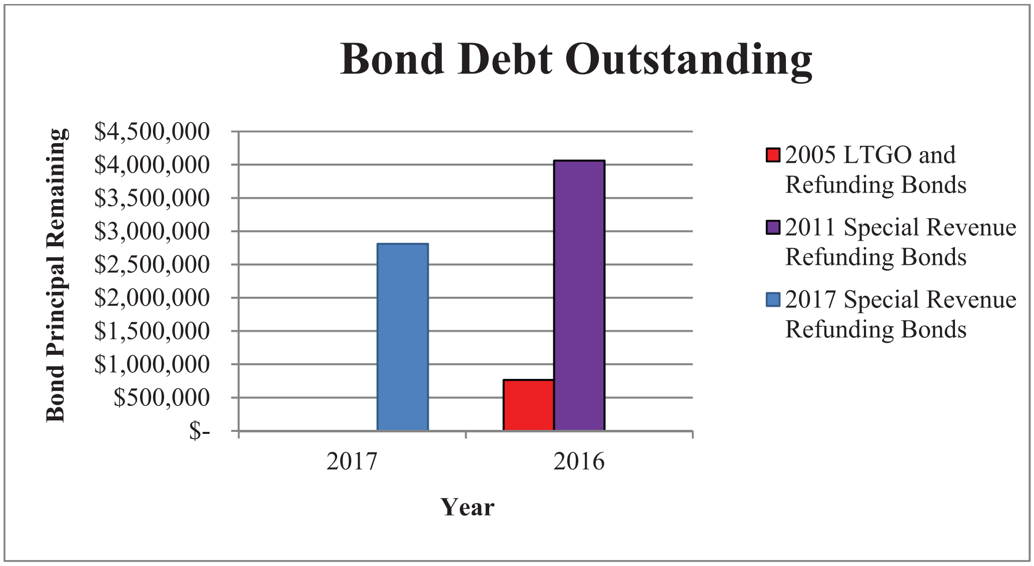
Capital Assets	2017	2016
Land	$ 4,323,675	$ 4,323,675
Construction in progress	97,820	8,863
Buildings	16,610,526	17,006,257
Machinery and equipment	1,201,845	1,214,550
Marina and other improvements	33,526,128	36,589,737
	$ 55,759,994	$ 59,143,082

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 2017, the Port purchased or constructed and capitalized new fuel dock sales systems, a travelift overhaul including a new motor, tenant improvements at the Harbor Square business park, and a new work truck.

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.

The Port maintained capital assets of $55,759,994 as of December 31, 2017. The book value of the capital assets decreased by $2,112,062 in 2017 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



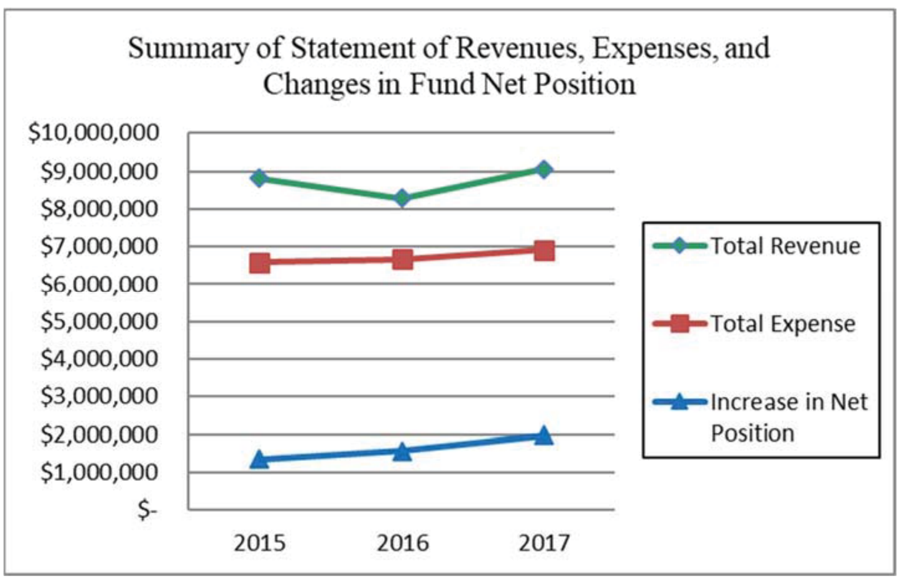
Bond	2017	2016
2005 LTGO and Refunding Bonds	$ -	$ 765,000
2011 Special Revenue Refunding Bonds	$ -	$ 4,060,887
2017 Special Revenue Refunding Bonds	$ 2,811,307	$ -

The Port's current liabilities as of December 31, 2017, are debts that the Port will repay in 2018. The total current liabilities increased by $582,599 in 2017. 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 2018.

The Port's long term liabilities decreased by $2,686,943 in 2017, as the Port made principal payments on its bonds. The Port's General Obligation Bonds matured on June 1, 2017, with the final principal payment of $765,000. Revenue and Refunding bonds outstanding at December 31, 2017 were $2,811,307, a decrease of $1,249,580 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

Summary of Statement of Revenues, Expenses, and Changes in Fund Net Position				
	2017	2016	Increase (Decrease)	% Change
Marina Operations Revenues	$ 5,970,132	$ 5,444,605	$ 525,527	10%
Property/Lease Rental Operations Revenues	2,553,482	2,357,082	196,400	8%
Nonoperating Revenues	541,237	482,078	59,159	12%
Total Revenues	9,064,851	8,283,765	781,086	9%
Operating Expenses	6,764,355	6,212,511	551,844	9%
Nonoperating Expenses	328,480	329,434	(954)	0%
Total Expenses	7,092,835	6,541,945	550,890	8%
Income before other revenues, expenses, gains, losses, and transfers	1,972,016	1,741,820	230,196	13%
Increase in Net Position	1,972,016	1,741,820	230,196	13%
Net Position - Beginning	34,045,700	32,303,880	1,741,820	5%
Prior Period Adjustments	(504,657)		(504,657)	100%
Net Position - Ending	$ 35,513,059	$ 34,045,700	$ 1,467,359	4%



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 $781,086 in 2017. Operating revenues increased by $721,927 and nonoperating revenues increased by $59,159.

Total expenses increased by $550,890 in 2017. Operating expenses increased by $551,844, and nonoperating expenses decreased by $954.

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, by e-mail at tdrennan@portofedmonds.org, or by telephone at (425) 673-2009.

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, 2016. 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 and tourism within their districts. Ports are often, though not always, involved in transportation activities.

The Port of Edmonds operates a marina on Puget Sound for recreational boating. The marina consists of an in-water facility 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 rents its land to commercial users who then build suitable facilities on the land. The Port also owns and manages eight buildings, renting portions of those buildings to approximately 60 tenants. Major tenants include a hotel, an athletic club, and three 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

Governmental accounting falls under the control of the Governmental 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 the 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 for capital investments. 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, to supplement the cost of public amenities, and to promote economic development and tourism.

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 2016, the Port's Net Position increased by $1,741,820 or 5.4%, which shows that the Port of Edmonds performed better in 2016 than in 2015. Cash flows show if the Port is spending more money than it received. In 2016, the Port of Edmonds received $581,983 more than it spent or invested. Before purchasing investments, the Port received $1,589,925 more than it spent. Overall, the Port is in a better financial position than it was in 2015.

FINANCIAL HIGHLIGHTS

The Port's 2016 marina operations revenues were $5,444,605, a decrease of $50,523 or 0.92% less than the previous year. The primary cause of this decrease was the lack of recreational fishing. 2016 property/lease rental operations revenues were $2,357,082, an increase of $100,427 or 4.45% greater than the previous year. This is partially due to an increase in lease rates and partially due to an increase in occupancy. As of December 31, 2016, the Port's business park was 90% occupied. The Port's 2016 non-operating revenues were $482,078, an increase of $13,064, or 2.79% greater than the previous year.

The Port's 2016 operating expenses were $6,212,511, a decrease of $18,520 or 0.30% less than the previous year's operating expense levels. The Port's non-operating expenses were $329,434, a decrease of $101,052, or 23.47% less than the previous year's non-operating expense levels. This decrease is due to the decrease in interest expense in 2016.

The Port's operating income was $1,741,820 in 2016, as compared to $1,559,280 in 2015.

In 2016, the Port's net position increased by $1,741,820.

The Port's assets exceeded its liabilities by $34,045,700 (net position) as of December 31, 2016.

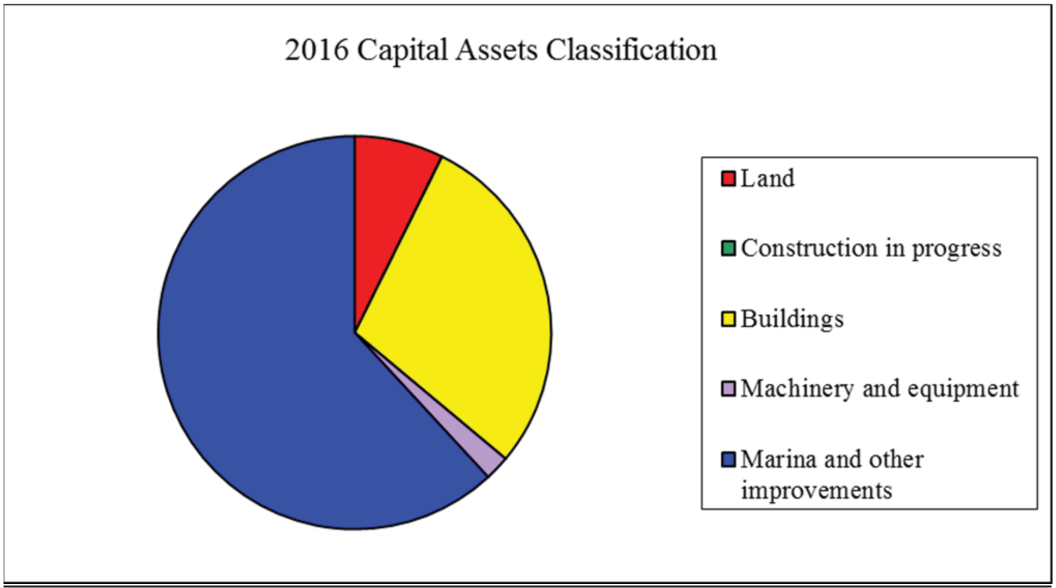
FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

Summary of Statement of Net Position

	2016	2015	Increase (Decrease)	% Change
Current Assets	$ 8,246,407	$ 7,666,627	$ 579,780	7.56%
Investments	4,194,890	3,229,179	965,711	29.91%
Capital Assets, Net	30,166,088	31,621,769	(1,455,681)	-4.60%
Total Assets	42,607,385	42,517,575	89,810	0.21%
Deferred Outflows of Resources	277,821	187,920	89,901	47.84%
Total Assets and Deferred Outflows of Resources	42,885,206	42,705,495	179,711	0.42%
Current Liabilities	1,996,770	2,275,744	(278,974)	-12.26%
Noncurrent Liabilities	6,797,451	7,924,455	(1,127,004)	-14.22%
Total Liabilities	8,794,221	10,200,199	(1,405,978)	-13.78%
Deferred Inflows of Resources	45,285	201,416	(156,131)	-77.52%
Net investment in capital assets	25,344,231	25,422,745	(78,514)	-0.31%
Unrestricted	8,701,469	6,881,135	1,820,334	26.45%
Total Net Position	34,045,700	32,303,880	1,741,820	5.39%
Total Liabilities, Deferred Inflows of Revenues, and Net Position	$ 42,885,206	$ 42,705,495	$ 179,711	0.42%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2016, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Total Net Position increased by $1,741,820 or 5.39% in 2016. Of this amount $25,344,231 reflects the Port's net investment in capital assets.

CAPITAL ASSETS



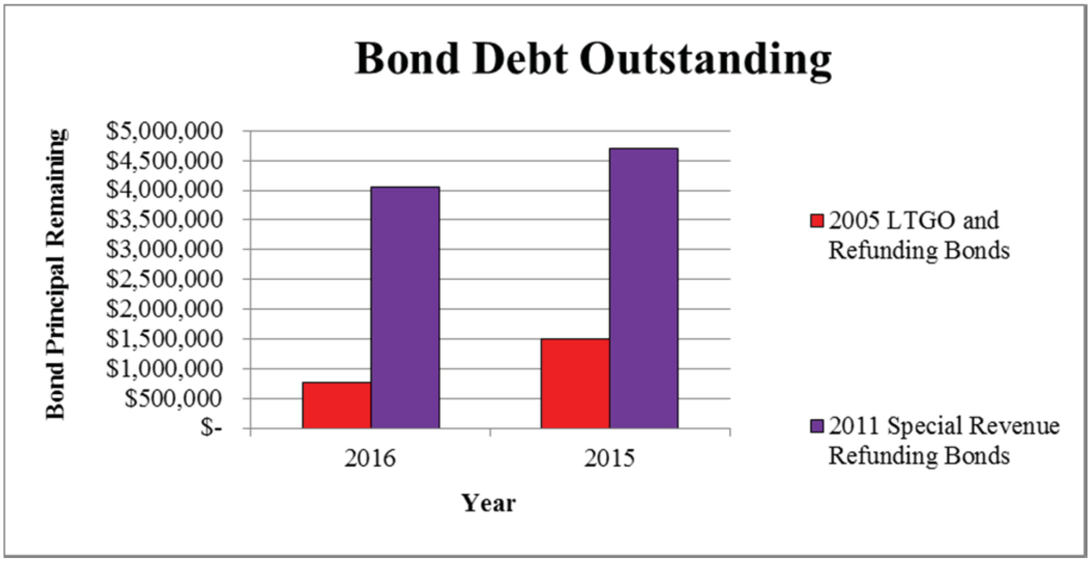
Capital Asset	2016	2015
Land	$ 4,323,675	$ 4,323,675
Construction in progress	8,863	522,169
Buildings	17,006,257	16,429,775
Machinery and equipment	1,214,550	1,206,471
Marina and other improvements	36,589,737	36,506,802
	$ 59,143,082	$ 58,988,892

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 2016, the Port purchased or constructed and capitalized two restroom facilities, a fuel dock office remodel, tenant improvements at the Harbor Square business park, a new work truck, improvements on the Dry Storage hydraulic launchers, and electrical improvements on I Dock.

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.

The Port maintained capital assets of $59,143,082 as of December 31, 2016. The book value of the capital assets decreased by $1,455,681 in 2016 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



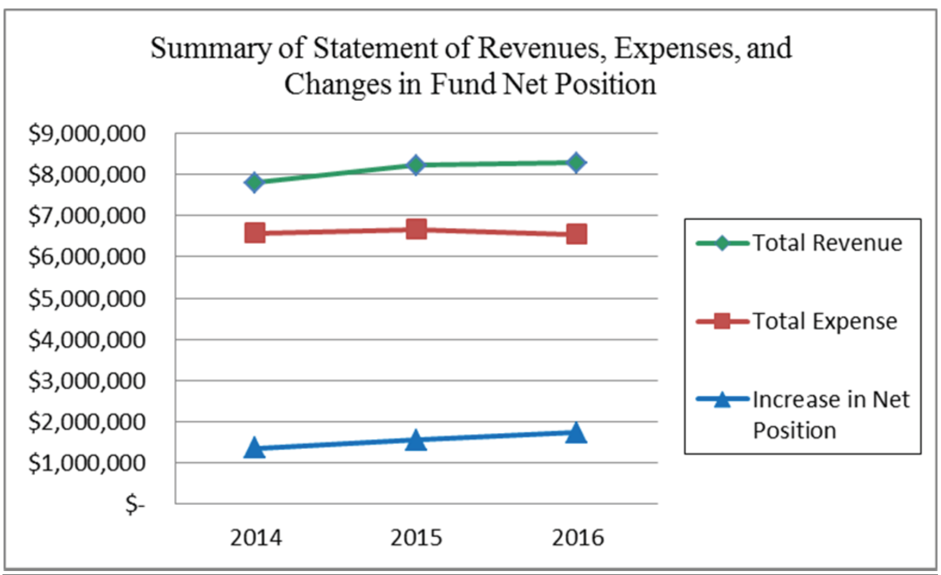
Bond	2016	2015
2005 LTGO and Refunding Bonds	$ 765,000	$ 1,500,000
2011 Special Revenue Refunding Bonds	$ 4,060,887	$ 4,710,289

The Port's current liabilities as of December 31, 2016, are debts that the Port will repay in 2017. The total current liabilities decreased by $278,974 in 2016. 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 2017.

The Port's long term liabilities decreased by $1,127,004 in 2016, as the Port made principal payments on its bonds. General Obligation bonds outstanding at December 31, 2016 were $765,000, a decrease of $735,000 from 2015. Revenue and Refunding bonds outstanding at December 31, 2016 were $4,060,887, a decrease of $649,402 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

Summary of Statement of Revenues, Expenses, and Changes in Fund Net Position				
	2016	2015	Increase (Decrease)	% Change
Marina Operations Revenues	$ 5,444,605	$ 5,495,128	$ (50,523)	-0.92%
Property/Lease Rental Operations Revenues	2,357,082	2,256,655	100,427	4.45%
Nonoperating Revenues	482,078	469,014	13,064	2.79%
Total Revenues	8,283,765	8,220,797	62,968	0.77%
Operating Expenses	6,212,511	6,231,031	(18,520)	-0.30%
Nonoperating Expenses	329,434	430,486	(101,052)	-23.47%
Total Expenses	6,541,945	6,661,517	(119,572)	-1.79%
Income before other revenues, expenses, gains, losses, and transfers	1,741,820	1,559,280	182,540	11.71%
Capital Contributions	-	-	-	0.00%
Extraordinary/Special Items	-	-	-	0.00%
Increase in Net Position	1,741,820	1,559,280	182,540	11.71%
Net Position - Beginning	32,303,880	32,143,773	160,107	0.50%
Change in Accounting Principle		(1,387,646)	1,387,646	100.00%
Prior Period Adjustments		(11,527)	11,527	100.00%
Net Position - Ending	$ 34,045,700	$ 32,303,880	$ 1,741,820	5.39%



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 $62,968 in 2016. Operating revenues increased by $49,904 and nonoperating revenues increased by $13,064.

Total expenses decreased by $119,572 in 2016. Operating expenses decreased by $18,520, and nonoperating expenses decreased by $101,052.

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, by e-mail at tdrennan@portofedmonds.org, or by telephone at (425) 673-2009.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 1 and 3)	$ 6,980,958
Accounts receivable (net of allowance for uncollectibles) (Note 1)	83,791
Taxes receivable (Notes 1 and 4)	9,232
Interest receivable (Note 1)	14,292
Inventory (Note 1)	53,639
Prepaid expenses	135,533
Total Current Assets	7,277,445
Noncurrent Assets	
Investments (Note 3)	6,201,137
Restricted Assets (Note 3)	
Investments (Note 3)	699,995
Capital Assets	
Capital Assets Not Being Depreciated (Note 5)	
Land	4,323,675
Construction in progress (Note 6)	97,820
Capital Assets Being Depreciated (Note 5)	
Buildings	16,610,526
Marina and other improvements	33,526,128
Machinery and equipment	1,201,845
Less: Accumulated depreciation	(27,705,969)
Total Net Capital Assets	28,054,025
Total Noncurrent Assets	34,955,157
TOTAL ASSETS	$ 42,232,602
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflow (Notes 1 and 7)	179,994
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 179,994

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2017

LIABILITIES	
Current Liabilities	
Accounts payable	$ 159,495
Accrued expenses (Note 1)	263,357
Unearned revenue (Note 1)	226,041
Customer deposits	600,229
Current portion of long-term obligations (Note 10)	1,330,247
Total Current Liabilities	2,579,369
Noncurrent Liabilities	
Employee leave benefits (Note 1)	157,109
Revenue bonds, net of current portion (Note 10)	1,481,060
Other postemployment benefits (Note 8)	715,363
Net pension liability (Notes 1 and 7)	1,144,476
Environmental remediation liability (Note 13)	612,500
Total Noncurrent Liabilities	4,110,508
TOTAL LIABILITIES	6,689,877
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows (Notes 1 and 7)	209,660
NET POSITION	
Net investment in capital assets	25,242,718
Unrestricted	10,270,341
TOTAL NET POSITION	$ 35,513,059

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 1 and 3)	$ 7,979,299
Accounts receivable (net of allowance for uncollectibles) (Note 1)	44,267
Taxes receivable (Notes 1 and 4)	9,703
Interest receivable (Notes 1 and 3)	9,811
Inventory (Note 1)	65,238
Prepaid expenses	138,089
Total Current Assets	8,246,407
Noncurrent Assets	
Investments (Note 3)	4,194,890
Capital Assets	
Capital Assets Not Being Depreciated (Note 5)	
Land	4,323,675
Construction in progress (Notes 5 and 6)	8,863
Capital Assets Being Depreciated (Note 5)	
Buildings	17,006,257
Marina and other improvements	36,589,737
Machinery and equipment	1,214,550
Less: Accumulated depreciation	(28,976,994)
Total Net Capital Assets	30,166,088
Total Noncurrent Assets	34,360,978
TOTAL ASSETS	$ 42,607,385
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding (Note 1)	$ 4,030
Deferred pension outflow (Notes 1 and 7)	273,791
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 277,821

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2016

LIABILITIES	
Current Liabilities	
Accounts payable	$ 153,688
Accrued expenses (Note 1)	223,763
Accrued interest payable (Note 10)	2,613
Unearned revenue (Note 1)	92,435
Customer deposits	551,142
Current portion of long-term obligations (Note 10)	973,129
Total Current Liabilities	1,996,770
Noncurrent Liabilities	
Employee leave benefits (Note 1)	139,953
General obligation bonds, net of current portion (Note 10)	-
Revenue bonds, net of current portion (Note 10)	3,852,758
Other postemployment benefits (Note 8)	628,154
Net pension liability (Notes 1 and 7)	1,564,086
Environmental remediation liability (Note 13)	612,500
Total Noncurrent Liabilities	6,797,451
TOTAL LIABILITIES	8,794,221
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows (Notes 1 and 7)	45,285
NET POSITION	
Net investment in capital assets	25,344,231
Unrestricted	8,701,469
TOTAL NET POSITION	$ 34,045,700

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, 2017

OPERATING REVENUES (Note 1)	
Marina operations	$ 5,970,132
Property lease/rental operations	2,553,482
Total Operating Revenues	8,523,614
OPERATING EXPENSES (Note 1)	
General operations	3,330,072
Maintenance	589,403
General and administrative	1,174,242
Depreciation	1,670,638
Total Operating Expenses	6,764,355
Operating Income	1,759,259
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income (Note 3)	125,964
Taxes levied for general purposes (Note 4)	405,365
Grant proceeds	9,908
Change in fair value of investments (Note 3)	(25,890)
Loss on disposition of fixed assets	(168,985)
Interest expense (Note 10)	(127,707)
Election expense	(5,898)
Total Nonoperating Revenues (Expenses)	212,757
Increase in net position	1,972,016
Net position as of January 1	34,045,700
Prior period adjustment	(504,657)
Net position as of December 31	$ 35,513,059

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, 2016

OPERATING REVENUES (Note 1)	
Marina operations	$ 5,444,605
Property lease/rental operations	2,357,082
Total Operating Revenues	7,801,687
OPERATING EXPENSES (Note 1)	
General operations	3,220,134
Maintenance	373,012
General and administrative	954,219
Depreciation (Note 5)	1,665,146
Total Operating Expenses	6,212,511
Operating Income	1,589,176
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income (Note 3)	69,607
Taxes levied for general purposes (Note 4)	406,854
Grant proceeds	1,552
Change in fair value of investments (Note 3)	(42,231)
Gain on disposition of fixed assets	4,065
Interest expense (Note 10)	(287,203)
Election expense	-
Total Nonoperating Revenues (Expenses)	152,644
Increase in net position	1,741,820
Net position as of January 1	32,303,880
Net position as of December 31	$ 34,045,700

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers (Note 1)	$ 8,666,783
Payments to suppliers	(2,599,118)
Payments to employees	(2,488,086)
Net cash provided by operating activities	3,579,579
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 4)	405,836
Nonoperating receipts	9,908
Nonoperating expenses (Note 1)	(5,898)
Net cash provided by noncapital financing activities	409,846
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets (Note 5)	(232,217)
Principal paid on capital debt (Note 10)	(2,014,580)
Interest paid on capital debt (Note 10)	(126,291)
Net cash used by capital and related financing activities	(2,373,088)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments (Note 3)	508,000
Purchases of investments (Note 3)	(3,241,666)
Interest and dividends	118,988
Net cash used by investing activities	(2,614,678)
Net decrease in cash and cash equivalents	(998,341)
Balances - beginning of the year	7,979,299
Balances - end of the year (Note 1)	6,980,958

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	1,759,259
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense (Note 5)	1,670,638
Other post-employment benefits expense	87,209
Pension negative expense	(157,408)
Changes in assets and liabilities	
(Increase)/decrease in accounts receivable	(39,524)
(Increase)/decrease in inventory	11,599
(Increase)/decrease in prepaid expenses	2,556
Increase/(decrease) in accounts payable	5,807
Increase/(decrease) in accrued expenses	39,594
Increase/(decrease) in customer deposits	49,087
Increase/(decrease) in unearned revenue	133,606
Increase/(decrease) in employee benefits payable	17,156
Net cash provided by operating activities	$ 3,579,579

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers (Note 1)	$ 7,885,793
Payments to suppliers	(2,511,508)
Payments to employees	(2,377,401)
Net cash provided by operating activities	2,996,884
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 4)	405,214
Nonoperating receipts (Note 1)	1,552
Nonoperating expenses (Note 1)	-
Net cash provided by noncapital financing activities	406,766
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets (Note 5)	(213,460)
Principal paid on capital debt (Note 10)	(1,384,402)
Interest paid on capital debt (Note 10)	(282,447)
Net cash used by capital and related financing activities	(1,880,309)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments (Note 3)	2,000,000
Purchases of investments (Note 3)	(3,007,942)
Interest and dividends	66,584
Net cash used by investing activities	(941,358)
Net increase in cash and cash equivalents	581,983
Balances - beginning of the year	7,397,316
Balances - end of the year (Note 1)	7,979,299

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	1,589,176
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense (Note 5)	1,665,146
Other post-employment benefits expense (Note 8)	81,244
Pension negative expense (Notes 1 and 7)	(35,157)
Changes in assets and liabilities	
(Increase)/decrease in accounts receivable	29,944
(Increase)/decrease in inventory	(18,322)
(Increase)/decrease in prepaid expenses	(4,756)
Increase/(decrease) in accounts payable	(374,936)
Increase/(decrease) in accrued expenses	2,491
Increase/(decrease) in customer deposits	49,626
Increase/(decrease) in unearned revenue	4,536
Increase/(decrease) in employee benefits payable	7,892
Net cash provided by operating activities	$ 2,996,884
Schedule of Non-Cash Activities	
Change in Fair Value of Investments (Note 3)	(42,231)

See accompanying notes to the financial statements.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Port was incorporated in December 1948, and operates under the laws of the State of Washington applicable to public port districts. 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 Cities, Counties, and Special Purpose Districts* in the State of Washington.

The Port's financial statements are reported using the economic resources measurement focus and the full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

All assets and all liabilities (whether current or noncurrent) associated with the Port's activity are included on the statement of net position. Net 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 on a separate statement that presents its operating, noncapital financing, capital and related financing, and investing activities.

The Port distinguishes between operating revenues and expenses and nonoperating items. 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.

C. Use of Estimates

The preparation of financial statements in conformity with generally 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.

D. 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, 2017, the treasurer was holding $6,980,958 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as 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 2017 were approximately $375,000.

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. 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. The Port classifies prepaid rent from land and building tenants as unearned revenue in the current liability section of the financial statements.

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

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes are considered liens on property, no estimated uncollectible amounts are established.

Accrued interest receivable consists of amounts earned on investments at the end of the year.

4. Inventory

Inventory consists of fuel and workyard supplies held for sale to customers. Inventory is valued by the FIFO (first-in, first-out basis) cost method, which approximates market value.

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

6. Deferred Outflows/Inflows of Resources

The Port reports deferred outflows and deferred inflows separately on the Statement of Net Position. Deferred outflows represent a consumption of net assets that applies to a future period(s). Conversely, deferred inflows represent an acquisition of net assets that applies to a future period(s).

7. Employee Leave Benefits

Employee leave benefits are absences for which employees will be paid, such as vacation and holiday leave. The Port records 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. Beginning in 2014, the Executive Director's contract allows him to be compensated for 100% of his sick pay upon termination. The Port began accruing this in 2014. No accrual is made for sick pay for other employees as it expires if unused.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Accrued Expenses

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

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

11. Unearned Revenues

   At December 31, 2017, the Port held $226,041 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2018.

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). As investments in the Washington Local Government Investment Pool have a maturity of three months or less when purchased, deposits in the Investment Pool are included in cash and cash equivalents.

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.

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. 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.

D. As of December 31, 2017, the Port held the following investments:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-3	More Than 3	% of Total Portfolio
U.S. Treasury Strips	$ 1,027,186	$ 529,477	$ 497,708		15%
U.S Agencies	$ 5,173,951	$ 748,313	$ 1,479,609	$ 2,946,029	75%
Certificate of Deposit (restricted)	$ 699,994		$ 699,994		10%
Total Investments	$ 6,901,131	$ 1,277,790	$ 2,677,312	$ 2,946,029	100%
Percentage of Portfolio	100%	19%	39%	43%	

E. 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.

F. Change in Fair Value of Investments

Change in fair value of investments of ($25,890) is the difference between the price at December 31, 2016 or at which the Port of Edmonds purchased the securities, whichever is later, and the fair value at December 31, 2017. 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. If the Port holds the investments to maturity or call date, there will be no realized loss or gain.

G. Investments in Local Government Investment Pool (LGIP)

The Port is a participant in the Local Government Investment Pool which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB Statement Number 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

As the maturity of LGIP investments is 3 months or less, the Port considers LGIP investments to be cash equivalents.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

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 an unearned revenue. During the year, property tax revenues are recognized equally over all twelve months. Property taxes 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 2017 was approximately $0.082 per $1,000 on an assessed valuation of $4,899,793,400 for a total regular tax levy of $400,000.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost, where historical cost is not known. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets is included as part of the capitalized value of the assets constructed.

The Port has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the terms of the agreements involved, the federal and state governments 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

Capital assets activity for the year ended December 31, 2017, was as follows:

	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	8,863	240,567	151,610	97,820
Total capital assets, not being depreciated	4,332,538	240,567	151,610	4,421,495
Capital assets, being depreciated				
Buildings	17,006,257	225,317	621,048	16,610,526
Marina and other improvements	36,589,737	-	3,063,609	33,526,128
Machinery and equipment	1,214,550	128,544	141,250	1,201,845
Total capital assets being depreciated	54,810,544	353,861	3,825,906	51,338,499
Less accumulated depreciation for				
Buildings	7,196,194	722,337	473,501	7,445,030
Marina and other improvements	20,891,586	1,301,577	2,761,960	19,431,203
Machinery and equipment	889,213	76,201	135,679	829,736
Total accumulated depreciation	28,976,993	$ 2,100,115	$ 3,371,139	$ 27,705,969
Total capital assets, being depreciated, net	$ 25,833,550			$ 23,632,530

NOTE 6 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port has active construction projects as of December 31, 2017. At year-end, the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Fuel Dock Dispensers	$ -	$ 132,274
Marina Operations Bathrooms	69,407	105,134
	$ 69,407	$ 237,408

Of the committed balance of $237,408, the Port has sufficient funding available as per Note 1 – *Summary of Significant Accounting Policies*, Section D – *Assets, Liabilities, and Net Position*, Number 1 – *Cash and Cash Equivalents*.

NOTE 7 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ (1,144,476)
Pension assets	$ -
Deferred outflows of resources	$ 179,994
Deferred inflows of resources	$ (209,660)
Pension expense/expenditures	$ 32,982

State Sponsored Pension Plans

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement Systems (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.70%**	**7.38%**

The Port's actual PERS plan contributions were $80,995 to PERS Plan 1 and $113,423 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$717,985	$589,386	$477,992
PERS 2/3	$1,495,470	$555,090	$(215,412)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the Port reported a total pension liability of $1,144,476 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$589,386
PERS 2/3	$555,090

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.013921%	0.012421%	-0.001500%
PERS 2/3	0.016216%	0.015976%	-0.000240%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	$(42,705)
PERS 2/3	75,687
TOTAL	$32,982

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$0	$(21,994)
Changes of assumptions	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$43,296	$0
TOTAL	$43,296	$(21,994)

PERS Plan 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$56,244	$(18,255)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(147,974)
Changes of assumptions	$5,896	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$10,374	$(21,437)
Contributions subsequent to the measurement date	$64,184	$0
TOTAL	$136,697	$(187,666)

All Plans in Total	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$56,244	$(18,255)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(169,968)
Changes of assumptions	$5,896	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$10,374	$(21,437)
Contributions subsequent to the measurement date	$107,480	$0
TOTAL	$179,994	$(209,660)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS Plan 1
2018	$(14,867)
2019	4,694
2020	(1,090)
2021	(10,731)
2022	
Thereafter	
Total	$(21,994)

Year ended December 31:	PERS Plans 2&3
2018	$(58,681)
2019	11,580
2020	(15,412)
2021	(60,918)
2022	3,599
Thereafter	4,678
Total	$115,153

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 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, and vision insurance. PEBB offers retirees access to all of these benefits and PEBB employers provide monetary assistance, or subsidies, these benefits.

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 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 $715,363 is included as a noncurrent liability in the Statement of Net Position.

	Fiscal Year Ending 12/31/2015	Fiscal Year Ending 12/31/2016	Fiscal Year Ending 12/31/2017
Determination of Annual Required Contribution:			
Normal Cost at Year End	$ 55,676	$ 49,961	$ 61,053
Amortization of Unfunded Actuarial Accrued Liability	48,875	51,099	48,069
Annual Required Contribution	$ 104,551	$ 101,060	$ 109,122
Determination of Annual OPEB Cost:			
Annual Required Contribution	$ 104,551	$ 101,060	$ 109,122
Net OPEB Obligation Interest	18,290	21,876	25,126
Net OPEB Obligation Amortizaton	(26,443)	(31,628)	(36,326)
Annual OPEB Cost	$ 96,398	$ 91,308	$ 97,922
Determination of Net OPEB Obligation:			
Starting Net OPEB Obligation	$ 457,248	$ 546,910	$ 628,154
Annual OPEB Cost	96,398	91,308	97,922
Contributions	(6,736)	(10,064)	(10,713)
Net OPEB Obligation	$ 546,910	$ 628,154	$ 715,363

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2016, and 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2015	$ 96,398	6.99%	$ 546,910
12/31/2016	$ 91,308	11.02%	$ 628,154
12/31/2017	$ 97,922	10.94%	$ 715,363

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, 2017, 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 62.4 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, 2015 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 2015. 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 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 9 – RISK MANAGEMENT

The Port 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 (2) counties and two (2) 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, 2017, there were 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- $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 a 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 a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is 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, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber, and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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 (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) 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. Its members elect the Board and the positions are filled on a rotating basis. 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 2005 to advance refund several general obligation bonds. Both general obligation bonds and revenue bonds are repaid from revenues.

A. General Obligation Bonds

The general obligation bonds outstanding from January 1, 2017 through December 31, 2017 were as follows:

Purpose	Maturity	Interest Rate	Original Amount	2017 Installment
Refund 1997 G.O. Bonds	2017	3.00-4.10%	$ 3,925,000	$ 765,000

The bond matured on 6/1/2017.

B. Revenue Bonds

The revenue bonds outstanding from January 1, 2017 through December 31, 2017 were as follows:

Purpose	Maturity	Interest Rate	Original Amount	2017 Installment
Refund of 2006 Special Revenue Bond which was used to acquire Harbor Square buildings.	2021	5.25%	$ 7,898,115	$ 55,441
Refund of 2011 Special Revenue Bond which refunded the 2006 Special Revenue Bond which was used to acquire Harbor Square buildings.	2020	2.59%	$ 4,005,446	$ 1,194,140

The remaining balance of 2011 Special Revenue Bond was refunded in 2017 to reduce the interest rate and shorten the bond payment period. The annual debt service requirements to maturity of the 2017 Special Revenue Refunding Bond are as follows:

Year Ending	2011 Special Rev. Ref. Bonds	
December 31	Principal	Interest
2018	$ 1,330,247	$ 57,868
2019	1,365,602	22,512
2020	115,458	257
Total	$ 2,811,307	$ 80,637

The Port has pledged future Harbor Square revenue and net revenues of the Port to repay $4,005,446 in Special Revenue Refunding Bonds issued in January 2017. Proceeds from the 2017 bonds provided financing for refunding the 2011 bonds, which 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, and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 40% of Port net revenues. The total principal and interest remaining to be paid on the bonds is $2,891,944. Principal and interest paid for the current year on both 2017 and 2011 Special Revenue Bonds were $1,360,190. Pledged revenues were $8,523,614.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Bonds Payable:					
G.O. and Refunding Bonds	$ 765,000	$ -	$ 765,000	$ -	$ -
Revenue & Refunding Bonds	4,060,887	-	1,249,581	2,811,307	1,330,247
Add Unamortized Amounts:					
For bond premiums	-	-	-	-	
Total bonds payable	4,825,887	-	2,014,581	2,811,307	1,330,247
Employee leave benefits	139,953	195,243	178,087	157,109	
Other post employment benefits	628,154	97,922	10,713	715,363	
Net pension liability	1,564,086	1,144,476	1,564,086	1,144,476	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	$7,770,580	$1,437,641	$3,767,467	$ 5,440,755	$1,330,247

NOTE 11 - LEASES

A. Port as Lessee

As of December 31, 2017, 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 year 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 32 noncancelable lease arrangements ranging in monthly payments between $1,070 and $27,000 with either fixed increases from one to three percent, Consumer Price Index rent escalation clauses, or market rate rent escalation clauses. Approximately 14 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
2018	$ 2,059,148
2019	$ 1,890,017
2020	$ 1,161,947
2021	$ 741,147
2022	$ 569,709
2023-2027	$ 1,704,147
2028-2032	$ 1,081,117
2033-2037	$ 612,753
2038-2042	$ 349,983
2043-2044	$ 66,875
Total	$ 10,236,843

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. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

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 – 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 2017. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2017.

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 14 – PRIOR PERIOD ADJUSTMENTS

In 2010, the Port and a Port tenant jointly paid to replace a roof on one of the Port's rental buildings. The Port incorrectly only capitalized its portion the roof. In 2017, the error was corrected with an increase of $206,776 to buildings offset by a prior period adjustment and an increase of $68,064 to accumulated depreciation offset by a prior period adjustment. Net changes to Net Position from this error correction was an increase of $138,712.

In 2017, the Port reviewed its fixed assets and determined that some partial disposals should have been recorded in years when components of capital assets were replaced. In addition, some capital asset lives were decreased to reflect anticipated remaining lives. The total adjustment was a reduction to Net Position of $643,370.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Port was incorporated in December 1948, and operates under the laws of the State of Washington applicable to public port districts. 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 Cities, Counties, and Special Purpose Districts* in the State of Washington.

The Port's financial statements are reported using the economic resources measurement focus and the full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

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.

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 items. 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.

C. Use of Estimates

The preparation of financial statements in conformity with generally 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.

D. 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, 2016, the treasurer was holding $7,979,299 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as 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 2016 were approximately $605,000.

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. 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. The Port classifies prepaid rent from land and building tenants as unearned revenue in the current liability section of the financial statements.

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 at the end of the year.

4. Inventory

Inventory consists of fuel and workyard supplies held for sale to customers. Inventory is valued by the FIFO (first-in, first-out basis) cost method, which approximates market value.

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

6. 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. The deferred loss on refunding is now shown as a deferred outflow of resources instead of deferred interest on the Statement of Net Position.

7. Employee Leave Benefits

Employee leave benefits are absences for which employees will be paid, such as vacation and holiday leave. The Port records 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. Beginning in 2014, the Executive Director's contract allows him to be compensated for 100% of his sick pay upon termination. The Port began accruing this in 2014. No accrual is made for sick pay for other employees as it expires if unused.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Accrued Expenses

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

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

11. Unearned Revenue

   At December 31, 2016, the Port held $92,435 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2017.

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). As investments in the Washington Local Government Investment Pool have a maturity of three months or less when purchased, deposits in the Investment Pool are included in cash and cash equivalents.

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.

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, 2016, the Port had the following investments:

Investment	Matures	Fair Value
FICO STRIP PRN	11/30/2017	$ 502,890
Federal National Mortgage Association	1/30/2018	498,260
Federal Farm Credit Bank	11/6/2018	248,486
Federal Farm Credit Bank	2/22/2019	497,185
Federal National Mortgage Association	6/13/2019	247,405
Federal Home Loan Bank	11/8/2019	247,666
Federal National Mortgage Association	3/30/2020	492,566
Resolution Funding Corporation	7/15/2020	490,940
Federal Farm Credit Bank	6/2/2021	488,519
Federal Farm Credit Bank	8/16/2021	480,975
		$4,194,890

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. Change in Fair Value of Investments

Change in fair value of investments of ($42,231) is the difference between the price at December 31, 2015 or at which the Port of Edmonds purchased the securities, whichever is later, and the fair value at December 31, 2016. 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. If the Port holds the investments to maturity or call date, there will be no realized loss or gain.

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 an unearned revenue. During the year, property tax revenues are recognized equally over all twelve months. Property taxes 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 2016 was approximately $0.092 per $1,000 on an assessed valuation of $4,361,035,150 for a total regular tax levy of $400,000.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial individual cost of more than $3,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost, where historical cost is not known. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets is included as part of the capitalized value of the assets constructed.

The Port has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the terms of the agreements involved, the federal and state governments 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

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

	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	522,169	129,778	643,084	8,863
Total capital assets, not being depreciated	4,845,844	129,778	643,084	4,332,538
Capital assets, being depreciated				
Buildings	16,429,775	592,929	16,447	17,006,257
Marina and other improvements	36,506,802	82,935	-	36,589,737
Machinery and equipment	1,206,471	48,111	40,032	1,214,550
Total capital assets being depreciated	54,143,048	723,975	56,479	54,810,544
Less accumulated depreciation for				
Buildings	6,551,613	661,030	16,447	7,196,195
Marina and other improvements	19,952,122	1,005,832	66,368	20,891,586
Machinery and equipment	863,389	64,653	38,829	889,213
Total accumulated depreciation	27,367,124	$ 1,731,515	$ 121,644	$ 28,976,994
Total capital assets, being depreciated, net	$ 26,775,925			$ 25,833,549

NOTE 6 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port has active construction projects as of December 31, 2016. At year-end, the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Fuel Dock Sales Equipment	$ -	$ 60,148
Gutter Replacement	$ 5,002	$ 34,918
	$ 5,002	$ 95,066

Of the committed balance of $95,066, the Port has sufficient funding available as per Note 1 – *Summary of Significant Accounting Policies*, Section D – *Assets, Liabilities, and Net Position*, Number 1 – *Cash and Cash Equivalents*.

NOTE 7 – PENSION PLANS

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

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	(1,564,086)
Pension assets	$	-
Deferred outflows of resources	$	273,791
Deferred inflows of resources	$	(45,285)
Pension expense/expenditures	$	128,826

State Sponsored Pension Plans

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

<u>Contributions</u>

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

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

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

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

<u>Contributions</u>

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

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

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

The Port's actual PERS plan contributions were $76,567 to PERS Plan 1 and $95,473 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

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

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

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime. There were minor changes in methods and assumptions since the last valuation. The only change that affected the Port's plans are that for all systems, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$901,558	$747,623	$615,153
PERS 2/3	$1,503,255	$816,463	$(425,016)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the Port reported a total pension liability of $1,564,086 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$747,623
PERS 2/3	$816,463

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.014396%	0.013921%	-0.000475%
PERS 2/3	0.016797%	0.016216%	-0.000581%

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

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

Pension Expense

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

	Pension Expense
PERS 1	$13,497
PERS 2/3	$115,329
Total	**$128,826**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$18,824	$0
Changes of assumptions	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$37,014	$0
TOTAL	$55,838	$0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$43,476	($26,953)
Net difference between projected and actual investment earnings on pension plan investments	$99,911	$0
Changes of assumptions	$8,439	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$17,784	($18,332)
Contributions subsequent to the measurement date	$48,343	$0
TOTAL	$217,953	($45,285)

All Plans in Total	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$43,476	($26,953)
Net difference between projected and actual investment earnings on pension plan investments	$118,735	$0
Changes of assumptions	$8,439	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$17,784	($18,332)
Contributions subsequent to the measurement date	$85,357	$0
TOTAL	$273,791	($45,285)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PERS 1		PERS 2/3	
Inflows	Outflows	Inflows	Outflows
-	(4,635)	(14,152)	16,397
-	(4,635)	(14,152)	16,397
-	17,288	(14,152)	87,780
-	10,806	(2,830)	49,037
-	-	-	-
-	-	-	-
-	**18,824**	**(45,285)**	**169,610**

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 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, and vision insurance. PEBB offers retirees access to all of these benefits and PEBB employers provide monetary assistance, or subsidies, these benefits.

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 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 $628,154 is included as a noncurrent liability in the Statement of Net Position.

	Fiscal Year Ending 12/31/2014	Fiscal Year Ending 12/31/2015	Fiscal Year Ending 12/31/2016
Determination of Annual Required Contribution:			
Normal Cost at Year End	$ 34,478	$ 55,676	$ 49,961
Amortization of Unfunded Actuarial Accrued Liability	30,953	48,875	51,099
Annual Required Contribution	$ 65,431	$ 104,551	$ 101,060
Determination of Annual OPEB Cost:			
Annual Required Contribution	$ 65,431	$ 104,551	$ 101,060
Net OPEB Obligation Interest	16,145	18,290	21,876
Net OPEB Obligation Amortizaton	(23,342)	(26,443)	(31,628)
Annual OPEB Cost	$ 58,234	$ 96,398	$ 91,308
Determination of Net OPEB Obligation:			
Starting Net OPEB Obligation	$ 403,631	$ 457,248	$ 546,910
Annual OPEB Cost	58,234	96,398	91,308
Contributions	(4,617)	(6,736)	(10,064)
Net OPEB Obligation	$ 457,248	$ 546,910	$ 628,154

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2015, and 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2014	$ 58,234	7.93%	$ 457,248
12/31/2015	$ 96,398	6.99%	$ 546,910
12/31/2016	$ 91,308	11.02%	$ 628,154

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, 2016, 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 62.4 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, 2015 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 2015. 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 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 9 – RISK MANAGEMENT

The Port 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 (2) counties and two (2) 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, 2016, there are 524 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- $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 a 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 a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is 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, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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 (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) 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.

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 2005 to advance refund several general obligation 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	2016 Installment
Refund 1997 G.O. Bonds	2017	3.00-4.10%	$ 3,925,000	$ 735,000

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
2017	765,000	15,683
Total	$ 765,000	$ 15,683

The 2005 G.O. and Refunding Bonds were issued at a premium. The Port is decreasing annual interest expense by amortizing the debt premium over the life of the bond.

B. Revenue Bonds

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2016 Installment
Refund of 2006 Special Revenue Bond which was used to acquire Harbor Square buildings	2021	5.25%	$ 7,898,115	$ 649,402

The annual debt service requirements to maturity of the 2011 Special Revenue Refunding Bond are as follows:

Year Ending	2011 Special Rev. Ref. Bonds	
December 31	Principal	Interest
2017	$ 208,129	$ 365,353
2018	219,482	354,000
2019	231,454	342,028
2020	243,128	330,353
2021	3,158,695	238,599
Total	$ 4,060,887	$ 1,630,332

The Port has pledged future Harbor Square revenue and net revenues of the Port 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, and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 18% of Port net revenues. The total principal and interest remaining to be paid on the bonds is $4,060,887. Principal and interest paid for the current year were $885,600. Pledged Harbor Square revenues were $1,735,308.

Changes in Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Bonds Payable:					
G.O. and Refunding Bonds	$ 1,500,000	$ -	$ 735,000	$ 765,000	$ 765,000
Revenue & Refunding Bonds	4,710,289	-	649,402	4,060,887	208,129
Add Unamortized Amounts:					
For bond premiums	822	-	822	-	
Total bonds payable	6,211,111	-	1,385,224	4,825,887	973,129
Employee leave benefits	132,061	181,006	173,114	139,953	
Other post employment benefits	546,910	91,308	10,064	628,154	
Net pension liability	1,353,211	210,875	-	1,564,086	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	$ 8,855,793	$ 483,189	$ 1,568,402	$ 7,770,580	$ 973,129

NOTE 11 - LEASES

A. Port as Lessee

As of December 31, 2016, 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 year 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 35 noncancelable lease arrangements ranging in monthly payments between $860 and $27,000 with either fixed increases from one to three percent, Consumer Price Index rent escalation clauses, or market rate rent escalation clauses. Approximately 20 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	
2017	$	2,025,872
2018	$	1,964,920
2019	$	1,715,536
2020	$	1,028,926
2021	$	669,144
2022-2026	$	1,760,824
2027-2031	$	1,119,047
2032-2036	$	652,210
2037-2041	$	392,549
2042-2044	$	117,439
Total	$	11,446,468

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. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

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 – 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 2016. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2016.

C. <u>Methods and Assumptions Used for the Estimate</u>

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. <u>Potential for Changes</u>

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. <u>Estimated Recoveries Reducing the Liability</u>

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

NOTE 14 – SUBSEQUENT EVENTS

In January 2017, the 2011 Special Revenue Refunding Bonds were amended to reduce the interest rates from 5.25% to 2.59%, accelerate the payments so that the bond would mature in January 2020 instead of September 2021, and alter the monthly payments to eliminate a balloon payment at maturity. This bond amendment will save the Port approximately $623,000.

Port of Edmonds
Schedule of Proportionate Share of the Net Pension Liability
Washington State Public Employee Retirement Systems Plan 1
As of June 30, 2017

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.014396%	0.013921%	0.012421%
Employer's proportionate share of the net pension liability	$ 753,045	$ 747,623	$ 589,386
TOTAL	$ 753,045	$ 747,623	$ 589,386
Employer's covered employee payroll	$ 1,561,301	$ 1,570,980	$ 1,566,327
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	48.23%	47.59%	37.63%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%

Port of Edmonds
Schedule of Proportionate Share of the Net Pension Liability
Washington State Public Employee Retirement Systems Plans 2 & 3
As of June 30, 2017

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.016797%	0.016216%	0.015976%
Employer's proportionate share of the net pension liability	$ 600,166	$ 816,463	$ 555,090
TOTAL	$ 600,166	$ 816,463	$ 555,090
Employer's covered employee payroll	$ 1,490,532	$ 1,505,056	$ 1,566,327
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.25%	35.44%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%

Port of Edmonds
Schedule of Employer Contributions
Washington State Employee Retirement Systems Plan 1
As of December 31, 2017

	2015	2016	2017
Statutorily or contractually required contributions	$ 71,356	$ 76,567	$ 80,995
Contributions in relation to the statutorily or contractually required contributions	$ (71,356)	$ (76,567)	$ (80,995)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employer payroll	$ 1,538,725	$ 1,564,005	$ 1,652,801
Contributions as a percentage of covered employee payroll	4.64%	4.90%	4.90%

Port of Edmonds
Schedule of Employer Contributions
Washington State Employee Retirement Systems Plans 2 & 3
As of December 31, 2017

	2015	2016	2017
Statutorily or contractually required contributions	$ 82,765	$ 95,473	$ 113,423
Contributions in relation to the statutorily or contractually required contributions	$ (82,765)	$ (95,473)	$ (113,423)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employer payroll	$ 1,469,808	$ 1,532,480	$ 1,652,801
Contributions as a percentage of covered employee payroll	5.63%	6.23%	6.86%

PORT OF EDMONDS
REQUIRED SUPPLEMENTARY INFORMATION
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%
December 31, 2014	$ -	$ 535,246	$ 535,246	0.00%	$ 1,372,840	38.99%
December 31, 2015	$ -	$ 845,147	$ 845,147	0.00%	$ 1,531,590	55.18%
December 31, 2016	$ -	$ 883,605	$ 883,605	0.00%	$ 1,443,393	61.22%
December 31, 2017	$ -	$ 831,209	$ 831,209	0.00%	$ 1,503,861	55.27%

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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