Office of the Washington State Auditor
Pat McCarthy

October 17, 2019

Board of Commissioners
Port of Kennewick
Kennewick, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Port of Kennewick for the fiscal year ended December 31, 2018. The Port contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • Pat.McCarthy@sao.wa.gov

PORT OF KENNEWICK

BENTON COUNTY, WASHINGTON

<u>1699</u>
MCAG No.

ANNUAL FINANCIAL REPORT

Submitted pursuant to RCW 43.09.230

to the

WASHINGTON STATE AUDITOR'S OFFICE

For the Fiscal Year Ended December 31, 2018

Certified correct as of July 23, 2019, to the best of my knowledge and belief:

PREPARED BY:

TAMMY FINE, CPA, CFE, CGMA

PORT OF KENNEWICK
ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2018

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PORT OF KENNEWICK

ANNUAL FINANCIAL REPORT

For the Year Ending December 31, 2018

COMMISSIONERS

Thomas Moak	President
Don Barnes	Vice President
Skip Novakovich	Secretary

PORT OFFICERS/DIRECTORS

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

PORT STAFF

Bridgette Scott	Executive Assistant
Kandy Yates	Marina Manager & Office Assistant
Jen Roach	Accounting Administration Assistant
Lisa Schumacher	Special Projects Coordinator
Mike Boehnke	Facilities Manager
Mike Melia	Maintenance Technician
Anthony Eleshio	Maintenance Technician

MISSION STATEMENT

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

July 23, 2019

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

Dear Commissioners:

The 2018 Annual Financial Report of the Port of Kennewick (Port) as of and for the year ended December 31, 2018, is hereby submitted for your review. Responsibility for the accuracy of the data, the completeness and fairness of presentation, including all disclosures, rests with the management of the Port. The Port has established a comprehensive framework of internal controls to provide reasonable assurance that the financial statements are free from any material misstatements. I believe the data, as presented, is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the transactions of the Port, and that all disclosures necessary to gain a reasonable understanding of the Port's financial affairs have been included.

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

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

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

Sincerely,

Tammy Fine, CPA, CFE, CGMA

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Port of Kennewick
Kennewick, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Kennewick, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port of Kennewick as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2019, on our consideration of the Port of Kennewick's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Port of Kennewick's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port of Kennewick's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Yakima, Washington
July 23, 2019

Port of Kennewick

MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2018

INTRODUCTION

The following is the Port of Kennewick (Port) Management's Discussion and Analysis (MD&A) of financial activities and the performance for the calendar year ended December 31, 2018, with selected comparative information for the year ended 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial activities of the Port, to identify any significant changes in financial position, and to serve as an introduction to the Port's financial statements.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and non-capital and capital related financing activities. A reconciliation of the cash provided by operating activities to the Port's operating income as reflected on the statement of revenues, expenses, and changes in net assets is also included.

The Notes to Financial Statements provide the reader additional detailed information that may not be apparent from the actual financial statements. The Notes to Financial Statements are essential to a full understanding of the data contained in the financial statements and can be found immediately following the financial statements.

FINANCIAL REPORT

Financial Highlights

The Port's overall financial condition has improved over the prior year based on several financial highlights stated below:

- The Port's assets exceeded its liabilities at close of calendar year 2018 by just below $56 million.
- The Port has no outstanding debt.
- The Port's overall operating revenues in 2018 increased by approximately $41 thousand or 3.4% from 2017 while operating expenses before deprecation increased by approximately $214 thousand or 10.4%.
- The Port's non-operating revenues over non-operating expenses was just over $3.2 million.
- The Port's net position before the GASB 75 prior period adjustment increased by just over $1 million due to the increase in total revenues over total expenses (excluding capital), which represents a healthy organization.
- There are no known significant liabilities or contingencies that will negatively impact the Port's future financial position.

Financial Position Summary

The Statement of Net Position presents the financial position of the Port as of December 31, 2018. The statement includes all the Port's assets and liabilities. As described earlier, the net position serves as an indicator of the Port's financial position. A condensed comparison of the Port's assets, liabilities, and net position at December 31, 2018 and 2017, follows:

PORT OF KENNEWICK'S Net Position

	2018	2017
Current assets	$ 9,942,934	$ 9,366,023
Capital assets	48,456,981	47,838,176
Deferred Outflow of Resources	144,235	129,092
Total assets & deferred outflow	**58,544,150**	**57,333,291**
Current liabilities	894,369	722,948
Noncurrent liabilities	1,423,113	1,019,262
Deferred Inflow of Resources	250,723	169,624
Total liabilities & deferred inflow	**2,568,205**	**1,911,834**
Net Position:		
Invested in capital assets, net of related debt	48,034,108	47,495,793
Unrestricted	7,941,837	7,925,664
Total net position	$ 55,975,945	$ 55,421,457

Capital Assets: The Port's investment in capital assets (land, buildings, improvements, machinery and equipment, and construction in progress), net of related debt increased by just over $538 thousand (net of accumulated depreciation). As described in the notes to the financials, the major capital asset events during 2018 included Columbia Drive and Vista Field redevelopment projects.

Current and Noncurrent Liabilities: The Port's noncurrent liabilities consist of two accounting treatments required by Governmental Accounting Standards Board for reporting the Port's share of Pension liabilities and healthcare cost. The Port's non-current liabilities increased by nearly $404 thousand dollars due to the new accounting principal implemented due to GASB 75 for other post-employment benefits liability. These are non-cash transactions and are not legal liabilities owed by the Port to any third party.

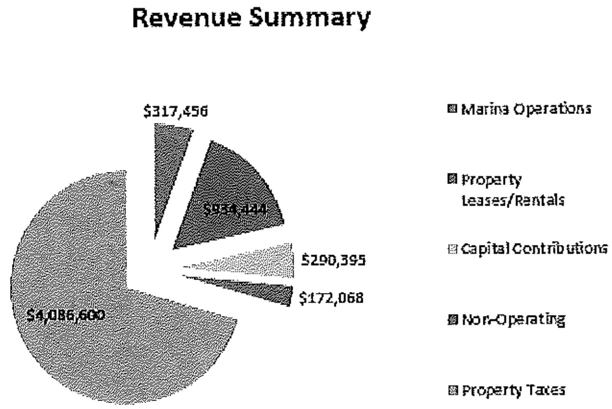
The Port's current liabilities consist of warrants and retainage payable, employee accrued paid time off (compensated absences), lease securities payable, and prepaid rents (unearned revenue). Current liabilities increased by $171 thousand primarily due to warrants payable for the Columbia Drive Redevelopment project that will clear in 2019.

Debt: The Port has no debt as of December 31, 2018.

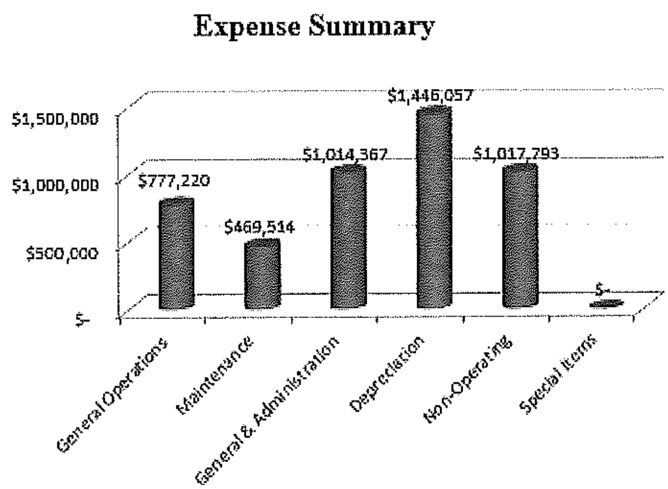
Financial Operating Highlights Summary
The following condensed financial information summarizes the Port's revenues, expenses, and changes in net position:

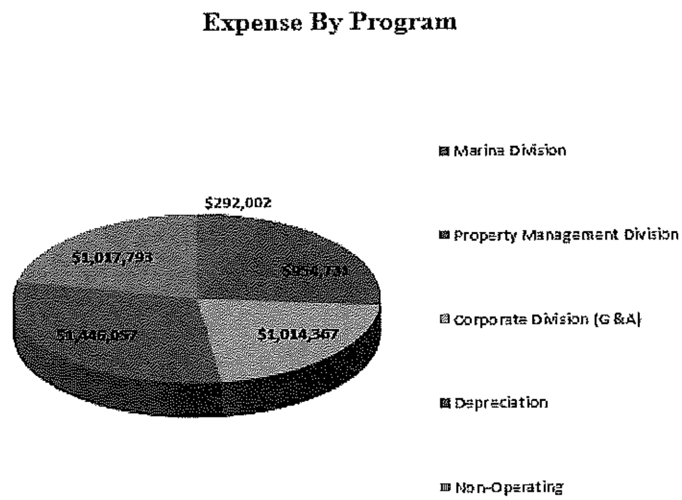
Statement of Revenues, Expenses, and Changes in Net Postion	2018	2017
Operating Revenues	1,251,900	1,210,975
Operating Expenses before depreciation	2,261,101	2,047,361
Total operating loss before depreciation	(1,009,201)	(836,386)
Depreciation	1,446,057	1,263,824
Total operating loss after depreciation	(2,455,258)	(2,100,210)
Non-operating revenues (expenses)	(845,725)	(522,584)
Ad valorem tax revenues	4,086,600	3,944,126
Total non-operating revenues (expenses)	3,240,875	3,421,542
Increase in net position, before capital contributions	**785,617**	**1,321,332**
Capital contributions	290,395	26,500
Increase in net postion, before special items	**1,076,012**	**1,347,832**
Special items	-	(6,697)
Changes in accounting principle (OPEB GASB 75)	(521,524)	-
Net position at beginning of year	55,421,457	54,080,322
Net position at end of year	**55,975,945**	**55,421,457**

Operating Revenues: 2018 operating revenues amounted to approximately $1.3 million.



Operating Expenses: 2018 operating expenses before depreciation amounted to just under $2.3 million.





PORT OUTLOOK AND ECONOMIC FACTORS

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

This year is one of the most memorable in the Port of Kennewick's history. Several Port projects increased in momentum, helping foster jobs, build infrastructure and enhance the quality of life for this community.

Perhaps the most anticipated is Vista Field. This project is a culmination of long-term collaborations with the community, City of Kennewick, Benton County, and many other partners. The public's plea for a regional, urban town center will begin to be realized this year as the Port undertakes construction of the initial infrastructure. The Port awarded the Phase-One bid in March 2019. Phase-One is being completed using a variety of fund sources, including: existing capital fund property tax receipts, land sale proceeds, county economic development funds, and a $5 million bond issue bank loan. The initial, publicly-funded "horizontal" infrastructure includes roads, streets, sidewalks, landscaping, linear park, water feature, and plaza. That infrastructure will create opportunities for investments in commercial, retail, and residential "vertical" development by the private sector. The Port plans to sell the shovel-ready sites, and use those proceeds to fund future phased infrastructure; using a pay-as-you-go approach, until the site plan is complete.

The Port and City of Kennewick were honored with the *2018 Governor's Smart Partnerships Award* for their efforts to create the Vista Field Redevelopment Master Plan. And while the entire 103-acre site will take many years to complete, the Phase-One spring 2019 groundbreaking is a monumental milestone. At build-out, Vista Field is expected to generate more than $500 million in private-sector investment with more than 1,000 residential units and 740,000 square feet of commercial space.

In 2018, the Port also received the *Governor's Heritage Award* for its contributions to Washington's creative and cultural vitality. The Tri-Cities Hispanic Chamber of Commerce honored the Port as *2018 Outstanding Business of the Year* for working to share the history and culture of underrepresented peoples through quality public art. And the Washington Public Ports Association awarded Port of Kennewick its *2018 Creative Partnership Award* for working with the City of Kennewick, Benton County, Columbia Basin College, Hanford Area Economic Investment Fund Advisory Committee, Columbia Center Rotary, Ben Franklin Transit, community members, and local businesses to transform Kennewick's industrial waterfront into a destination gathering-place known as Columbia Gardens Wine & Artisan Village.

Bartholomew Winery and Monarcha/Palencia Wine Company continue creating excitement for the Wine & Artisan Village since their respective openings in February and March 2018. Swampy's BBQ and Frost Me Sweet Mobile Desserts were named premiere tenants for the Food Truck Plaza. An iconic bus shelter, signalized pedestrian crossing, additional artwork, and public restrooms will be completed this year. Another building, slated for completion winter 2019, will add tasting rooms for Cave B Estate and Gordon Estate wineries. And the Port is ready to begin selling shovel-ready parcels to bring private sector investment to that waterfront complex.

The Port and its project partners, Benton County, City of Kennewick, and Columbia Basin College (CBC), continuing planning efforts for Phase-Three infrastructure improvements at the Port's Columbia Drive properties. This partnership could facilitate a future site for CBC's Culinary Arts Institute and mixed-use commercial, retail, and residential development. The Port's Columbia Drive land holdings are included within a federally designated "Opportunity Zone" that allows a federal tax incentive to increase economic development by the private sector.

The Port continues to collaborate with the U.S. Army Corps of Engineers on Clover Island habitat and recreational enhancements – a joint project to extend the public trail and restore shallow water habitat along the island's north shoreline. Last year, on the island's south shoreline, the Port installed four "willow fish traps" as the final element of The Gathering Place artwork.

The Port also secured a $500k grant from the Washington State Recreation and Conservation Office (RCO) Aquatic Lands Enhancement Account (ALEA); and $1 million from Benton County's Rural County Capital

Funds to be combined and used as local match to $3.5 million in Federal funding for habitat restoration and recreation. That project would make riparian improvements to Clover Island's north and eastern shoreline, and extend the Clover Island Riverwalk trail from the lighthouse to the Clover Island Inn. The design phase of this project is anticipated to begin spring 2019, with construction during the winter in-water fish-appropriate work window of 2020-2021.

In West Richland, the Port sold land allowing an opportunity to enhance public safety with the Benton County Fire Protection District No 4. The Fire District will build a new station to serve the rapidly growing western portion of their district. With 20,000 more residents anticipated within the next 20 years, sale of that property was critical to supporting this vital public-safety project.

At the Port's former Tri-City Raceway site, the comprehensive plan calls for Port staff to work with the City to identify an opportunity of mutual benefit, build sufficient Port funds, leverage partnership investments, and then target a meaningful project for future implementation.

The Port and the City of Richland continue its efforts to transform the Island View neighborhood, roadway, and waterfront; including replacing the cobra-head lights within Spaulding Business Park, and submitting a request for Benton County Rural County Capital funds to help underground power on Columbia Park Trail. After two decades of creating, selling, and fostering investment at Spaulding Business Park, the Port is ready to tackle a shorter-return project with a transparent public involvement process to determine the best use of shared resources; and take a novel approach to creating a "next decade plan".

Challenges & Opportunities. While the community has prioritized these redevelopment strategies, the Port cannot do them alone. The Port must secure partnerships and leverage funding, and we must remain vigilant to ensure that changing regulations and priorities do not hinder a chance to foster distinctive neighborhoods with a strong sense of place. As always, Port of Kennewick will endeavor to serve as a catalyst for economic development throughout our district. Indeed, in all we do, the Port remains mindful that we are stewards of the public's trust: we work to exercise thoughtful planning; give diligent consideration to potential projects; skillfully and transparently communicate our projects, programs, financial standing, and economic impacts; and work to ensure resources and developments are economically sustainable with a positive return to the citizens and taxpayers in our region.

Tax Levy. Over the years, the Port of Kennewick has worked to minimize the Port's property tax levy. We strive to keep the Port levy low. Our goal is to be able to offset operational costs and future economic development opportunities with revenue from tenants or developers while keeping tax revenue well below our taxing authority. With those goals in mind, the Port's levy rate has decreased from $0.44 in 2001 to $0.33 in 2018 which is a 25% decrease. A $200 thousand house cost $88 in Port property taxes in 2001; and just $66 in 2018.

REQUEST FOR INFORMATION

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

Port of Kennewick

STATEMENT OF NET POSITION*
December 31, 2018

Business-Type Activities

ASSETS		
Current Assets:		
Cash and cash equivalents	$	9,623,704
Taxes receivable		109,260
Other receivables (net)		20,015
Prepaid expenses		189,955
Total current assets	$	9,942,934
Noncurrent Assets:		
Capital assets		
Capital assets not being depreciated:		
Land		10,727,274
Construction in progress		4,960,831
Capital assets being depreciated:		
Improvements to land		9,962,231
Buildings		35,344,951
Equipment		1,367,605
Less: accumulated depreciation		(13,905,911)
Total capital assets (net)		48,456,981
Total noncurrent assets	$	48,456,981
TOTAL ASSETS	$	58,399,915
Deferred Outflows of Resources:		
OPEB		3,972
State Pension		140,263
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	144,235

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

Port of Kennewick

STATEMENT OF NET POSITION*
December 31, 2018

Business-Type Activities

LIABILITIES		
Current Liabilities:		
Warrants payable	$	481,801
Compensated absences		257,913
Retainage payable under construction contracts		40,312
Current portion of unearned revenue		29,495
Lease securities payable		84,848
Total current liabilities		894,369
Noncurrent Liabilities:		
Net port share of state pension liability		525,056
Other post-employement benefits liability (OPEB)		898,057
Total noncurrent liabilities		1,423,113
TOTAL LIABILITIES	$	2,317,482
Deferred Inflow of Resources:		
State Pension		250,723
TOTAL DEFERRED INFLOWS OF RESOURCES	$	250,723
NET POSITION		
Net investment in capital assets		48,034,108
Unrestricted		7,941,837
TOTAL NET POSITION	$	55,975,945

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

Port of Kennewick

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION*
For the Year Ended December 31, 2018

Business-Type Activities

OPERATING REVENUE		
Property lease/rental operations	$	934,444
Marina operations	$	317,456
Total operating revenues		1,251,900
OPERATING EXPENSES		
General operations		777,220
Maintenance		469,514
General and administration		1,014,367
Total before depreciation		2,261,101
Depreciation		1,446,057
Total operating expenses		3,707,158
Operating loss		(2,455,258)
NONOPERATING REVENUES (EXPENSES)		
Taxes levied for general purposes		4,086,600
Interest income		164,007
Gain or (Loss) on disposition of assets		(836)
Other nonoperating revenues		8,897
Real estate division expenses		(9,455)
Economic development division expenses		(251,730)
Public, election, OPEB, Pension, & governmental relations expenses		(756,608)
Total nonoperating revenues (expenses)		3,240,875
Income before other revenues, expenses, gains and loses		785,617
Capital contributions		290,395
Increase in net position		1,076,012
Net position - beginning of year	$	55,421,457
Changes in accounting principle (OPEB GASB 75)	$	(521,524)
Net position - end of year	$	55,975,945

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

Port of Kennewick

STATEMENT OF CASH FLOWS*
For the Year Ended December 31, 2018

Business-Type Activities

CASH FLOWS from OPERATING ACTIVITIES		
Receipts from customers	$	1,284,308
Payments to suppliers	$	(957,294)
Payments to employees	$	(1,264,685)
Net cash used by operating activities		(937,671)
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Non-capital property taxes received	$	1,797,798
Non-operating receipts	$	8,897
Non-operating expenses	$	(1,069,510)
Net cash provided by noncapital financing activities		737,185
CASH FLOWS from CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital property taxes received	$	2,273,998
Proceeds from sale of capital assets	$	500
Purchases of capital assets	$	(1,985,707)
Capital contributions	$	290,395
Net cash provided by capital and related financing activities		579,185
CASH FLOWS from INVESTING ACTIVITIES		
Interest and dividends on investments	$	164,007
Net cash provided by investing activities		164,007
Net increase in cash and cash equivalents		542,706
Balances - beginning of the year	$	9,080,998
Balances - end of the year	$	9,623,704

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

Port of Kennewick

STATEMENT OF CASH FLOWS *
For the Year Ended December 31, 2018

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities
Proprietary Fund*

For the Year Ended December 31, 2018

Operating loss	$ (2,455,258)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	1,446,057
Changes in assets and liabilities	
Accounts receivable (net)	10,332
Prepayments	(29,732)
Customer deposits payable	14,586
Warrants payable	19,002
Compensated absences	49,852
Unearned revenue	7,490
Net cash used by operating activities	$ (937,671)

Non-Cash Investing, Capital, and Financing Activities:

The noncash portion of these transactions are as follows:

Net Pension Expense (GASB 68)	$70,070
Other post-employment benefits expense (GASB 75)	$17,771

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

Port of Kennewick

NOTES TO FINANCIAL STATEMENT
For the Year Ended December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Accounting and Reporting

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

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

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

Operating expenses for the Port include expenses associated with the operations of the Marine Division and Property Management Division for the services provided by the Port and for leasing of Port property for the Marine Division and the Property Management Division. Operating expenses also include the cost of sales and services, general and administrative (Corporate Division) expenses as defined below, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital.
The Port uses a Cost Allocation Methodology Plan to allocate the Port's staffing and indirect costs to the Port's various properties, operations, capital (except indirect cost which is not allocated to capital

assets) and non-operating divisions. The Corporate Division allocates its general and administrative expenses according to the direct level of services they provide to the divisions; however, a majority of their function is to support all operations, non-operating and capital. The Port's cost allocation methodology does not allocate all corporate costs to the various divisions; however, it does apply an indirect cost allocation based on the direct cost associated with the division, non-operating items, or other special items. The Corporate Division includes, but is not limited to Accounting, Finance & Auditing, Board of Directors, Legal, and Management and Administration.

Non-operating revenues are defined as revenues that do not support the Port's Marine and Property Management Divisions. Non-operating revenues include but are not limited to property tax revenue (Ad Valorem Taxes), gain on sale of assets, capital contributions such as grants, interest income, public revenues, and other miscellaneous income not associated with the Port's Marine and Property Management Divisions.

Non-operating costs are expenses incurred by activities not related to the Marine and Property Management Divisions. Furthermore, some of the non-operating costs are non-recurring in nature and do not support the current operations of the Port; however, they are useful for planning and decision making such as market and feasibility studies. Non-operating costs include, but are not limited to, interest expense; governmental relations consultant; grant seeking and writing; public costs such as responding to public records requests and public awareness marketing campaigns; non-capital studies that do not currently impact or improve the Marine, and Property Management Divisions; other post-employment benefits and pension expenses (which are defined as an accounting liability by the Governmental Accounting Standards Board and are not a legal liability that the Port is required to contribute in the future) and other costs that do not currently impact or improve the Marine or Property Management Divisions, and/or costs that do not meet the capitalization requirements per Governmental Accounting Standards. The definition of operating cost is for accounting purposes only (not to be used for legal definitions and includes but is not limited to bond and debt issuance).

The Economic Development & Planning Division plans and delivers projects as well as provides technical and contracting services in support of the business plans and infrastructure needs of the Port. This division supports all the Port capital assets to be acquired or constructed. As defined by Governmental Accounting Standards, not all Economic Development & Planning Division costs can be capitalized such as indirect costs (e.g. feasibility studies, indirect staffing cost allocation, and miscellaneous office supplies). The above costs are located in the non-operating expenses for this division and all costs, associated directly and properly identified as capital, are reported as capital costs and are located in the capital budget. Capital costs are necessary expenditures and are directly associated with putting a capital asset into place, which includes, but is not limited to planning, direct staffing costs, site readiness costs, construction, and/or acquisition costs.

The Real Estate Division deals with the process of selling and purchasing property in support of the business plans and infrastructure needs of the Port. The Real Estate Division also markets Port properties for sale and provides technical and contracting services in support of the business plans and infrastructure needs of the Port. The associated staffing and indirect costs related to the Real Estate Division are located within the expenses of this division as non-operating and all costs, associated directly and properly identified as capital, are reported as capital costs and are located in the capital budget.

All assets and all liabilities (whether current or noncurrent) with the associated activity to these accounts are included in the statement of net position (or balance sheet). The reported fund position is segregated into net investment in capital assets, restricted, and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents the operating, noncapital financing, capital and related financing, and investing activities. Capital asset purchases are capitalized and long-term liabilities are accounted for in the statement of net position (or balance sheet).

C. Use of Estimates

The preparation of the Port's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Pension

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

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

a. Change in Accounting Principle

An adjustment to the prior period was made in order to implement the newly required GASB Statement 75, OPEB. This statement required the Port to increase the starting OPEB obligation by approximately $522 thousand dollars.

F. Assets, Liabilities, and Net Position

a. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2018, the Benton County Treasurer held just over $9.6 million in short-term residual investments of surplus cash as discussed in Note 5, *Deposits and Investments* held in Washington State approved depository. These amounts are classified on the Statement of Net Position as cash and cash equivalents. Interest on deposits and investments are accounted for on the Statement of Revenues, Expenses, and Changes in Net Position as non-operating revenues.

For purposes of the Statement of Cash Flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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

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

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

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

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

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

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

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

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

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

g. Deferred Outflows/Inflows of Resources
In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Port reports a separate section for deferred inflows and outflows of resources. The deferred inflows and outflows consist of OPEB and Pension transactions. See Note 10, *OPEB* and Note 11, *Pension.*

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

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

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

NOTE 2 – CAPITAL ASSETS AND DEPRECIATION

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

Cost for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. (Obligations under capital leases, if any, are disclosed in Note 7, *Leases* and Note 8, *Long-Term Debt*).

Ongoing major outlays for capital assets and improvements are capitalized under construction in progress (CIP).

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 1 to 50 years.

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

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

As of December 31, 2018, the Port did not have any impaired capital assets except the Port Commission voted in 2013, to discontinue an operating capital asset as disclosed in Note 6, *Extraordinary and/or Special Items.*

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance January 1	Deletions	Additions	Ending Balance December 31
Capital assets, not depreciated:				
Land	$ 10,727,274	$ -	$ -	$ 10,727,274
Construction in progress	11,016,695	8,081,237	2,025,373	4,960,831
Total capital assets, not depreciated	21,743,969	8,081,237	2,025,373	15,688,105
Capital assets, depreciated:				
Buildings	28,332,931	-	7,012,020	35,344,951
Improvements other than buildings	9,107,336	-	854,895	9,962,232
Machinery and equipment	1,137,960	25,502	255,147	1,367,604
Total capital assets, depreciated	38,578,227	25,501	8,122,062	46,674,787
Less accumulated depreciation for:				
Buildings	7,643,157	-	835,181	8,478,338
Improvements other than buildings	4,137,413	-	528,469	4,665,882
Machinery and equipment	703,450	24,167	82,408	761,691
Total accumulated depreciation	12,484,020	24,167	1,446,058	13,905,911
Total capital assets, being depreciated (net)	26,094,207	1,335	6,676,004	32,768,877
Total capital assets (net)	**$ 47,838,176**	**$8,082,572**	**$ 8,701,377**	**$ 48,456,981**

NOTE 3 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, 2018, The Port had three large active planning and construction projects; Columbia Drive Redevelopment, Vista Field Redevelopment, and Clover Island Shoreline enhancements. At year-end, the Port's commitments on contract were as follows:

Project	Spent to Date	Remaining Commitment
Vista Field Redevelopment	$ 656,981	$ 415,843
Columbia Drive Redevelopment, Loop Road, & Tasting Room	$ 1,427,821	$ 879,076
Clover Island Shoreline 1135 Project	$ 7,140	$ 12,860
Total	***$ 2,091,942***	***$ 1,307,779***

Of the committed balance of approximately $1.3 million, the Port has sufficient funding available to cover all cost as disclosed in Note 5, *Deposits and Investments.*

NOTE 4 – CONTINGENCIES, LITIGATION, STEWARDSHIP, AND ACCOUNTABILITY

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

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

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

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

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

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

The Port has entered into two interlocal agreements with the City of Kennewick. The first interlocal is for Phase-Two of the Columbia Gardens Wine Village Redevelopment Project. Both the City and Port agreed to contribute $1,050,000 of their respective Rural County Capital Fund (RCCF) allocations. This project will install the necessary infrastructure required for Phase-Two development and open lots for sale/lease to the public sector. The second interlocal commits $1 million from the City's RCCF allocation for development assistance on the Clover Island Shoreline Project. This project will also create additional marketable land for sale/lease to the public sector.

The Port has also entered into an interlocal agreement with the City of Richland, contributing $800 thousand of the Port's RCCF allocation to installing infrastructure and utilities on Columbia Park Trail. This project will stimulate economic development in the Island View area of Richland, providing more incentive for businesses to relocate there.

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

NOTE 5 – DEPOSITS AND INVESTMENTS

Deposits

The Benton County Treasurer is the *ex officio* treasurer for the Port of Kennewick and holds all accounts of the Port in the Port's name within the Benton County Treasurer's accounts.

The Port directs the County Treasurer to invest Port financial resources which the Port has determined are not needed to meet the current financial obligations of the district.

The Port is a participant in the Benton County Treasurer's Investment Pool (TIP), an external investment pool. The Port reports its investments in the Pool at cost, which is the value of the Pool per share. Benton County Treasurer is responsible for managing the Pool and has adopted a formal deposit and investment policy pursuant to RCW 36.29.020. The Benton County Finance Committee consists of the Benton County Treasurer as Chair, the Benton County Auditor as Secretary, and the Chair of the Board of Benton County Commissioners. All deposits and investments are subject to written policies and procedures adopted by the Benton County Finance Committee. The philosophy in developing the TIP was to create a locally managed diversified investment option that would take advantage of the economies of scale, simplify administration, and achieve a potentially higher yield than other available programs.

Deposits are classified on the Statement of Net Position as cash and cash equivalents. Investments with maturities of more than three months are classified on the Statement of Net Positions as investments. The Port of Kennewick had no investments and no insured or collateralized investments with maturities of more than three months as of December 31, 2018, since all of the Port's deposits are within the Benton County TIP and can be cashed out in their entirety daily or with a ten (10) day notice if over $10 million as per the Investment Service Agreement.

Custodial Risk.

Custodial risk for deposits and investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its deposits and investment or collateral securities that are in the possession of an outside party. The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institutions collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Benton County Treasurer's policy dictates that all deposits and investment instruments other than non-negotiable certificates of deposit and monies placed with the Washington State Local Government Investment Pool are transacted on the delivery versus payment basis. This means that payment is made simultaneously with the receipt of the security. Securities are held in safekeeping in the county's name by an institution (custodian) under contract with the county Treasurer. Currently, safekeeping is with Bank of New York Mellon.

Port of Kennewick deposits by type at December 31, 2018, are as follows:

Deposit	**Maturity**	**Fair Value of Port of Kennewick's Own Investments**	**Fair Value of the Port of Kennewick Deposits**	**Total**
Benton County (External Investment Pool)	Daily	$0.00	$9,608,704	$9,608,704
Gesa petty cash	Daily	$0.00	$15,000	$15,000
Total		$0.00	$9,623,704	$9,623,704

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

External Investment Pool.

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

NOTE 6 – EXTRAORDINARY AND/OR SPECIAL ITEMS

In 2013, the Port conducted a Planning, Environmental and Economic Analysis with a public-input process on the future of the Vista Field airport and it was determined in 2013 by the Port Commission the highest and best use for the Port and community as a whole was to close the Vista Field airport and redevelop the approximate 103-acre property. The Vista Field airport was estimated to average an annual loss of $390,144 per year, with very little economic benefit to the area and just over 4,000 annual operations (approximately 11 flights, counting both landing and take-off as a separate operation, each day). On December 31, 2013, the Port closed Vista Field airport for the purpose of enhancing the area for a long-term redevelopment project that will benefit the community as a whole, while cutting Port losses, and potentially increasing revenues through future land sales and/or property rental operations. As a result of this closure, the Port recognizes ongoing decommissioning cost of Vista Field airport as required by Governmental Accounting Standards Statement No. 69. The Port's ongoing decommissioning and closure costs will continue as planning permits (e.g. demolition of buildings). The Port did not spend any funds on the ongoing decommissioning activities in 2018.

NOTE 7 – LEASES

As of December 31, 2018, the Port had no material non-cancellable contracts where the Port leases property as a lessee. The Port has one major customer that is just over 10 percent of total operating revenues.

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

The Port currently has 17 non-cancellable lease arrangements ranging in monthly payments between $300 and $11 thousand with either fixed, 2% to 4% rent escalation clauses. Seven of the non-cancellable leases have contract terms ranging from one to four option(s) of 5 to 15-year lease renewal option(s). One lease contains a purchase option at fair market value at the end of the lease expiration.

The Port has calculated the minimum future lease rental income on non-cancellable operating leases through their lease terms and with the optional extensions. On leases with optional extensions the Port included the extension periods if it is a land lease with significant improvements (e.g. building) or the Port has reason to believe the tenant will renew (e.g. long history with the Port).

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

Years Ending December 31		
2019	$	755,938
2020	$	637,889
2021	$	439,832
2022	$	420,602
2023	$	281,895
Thereafter	$	7,750,826
TOTAL	***$***	***10,286,982***

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

NOTE 8 – LONG-TERM DEBT

A. Long-Term Debt, Refunded Debt, Conduit Debt, and Special Assessments
In August of 2018, the Port entered into a bond financing agreement to fund the Vista Field redevelopment project in the amount of $5 million. The interest rate is 2.85 percent until the first rate reset date of June 1, 2023. As of December 31, 2018, the total draws to date on the bond are $-0- with no principal outstanding.

B. Notes Payable
As of December 31, 2018, the Port of Kennewick had no notes payable.

NOTE 9 – OTHER DISCLOSURES

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

The Port has several real estate holdings that were originally purchased with the intent to develop, build, or lease. Real estate deemed no longer needed for Port purposes and available for development, lease, or sale in accordance with the Port's Comprehensive Scheme of Development are as follows:

- Southridge land 8.5 acres
- Oak Street land 12 acres

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

In June 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This statement applies to the Port's healthcare plan that contains retiree coverage and is effective for fiscal years beginning after June 2017. GASB 75 significantly changes what governments must report in the financial statements and OPEB disclosures. The biggest changes require the governments to recognize the total OPEB liability and a deferred inflow or outflow on the Statement of Net Position.

Legally, the Port does not have a contractual obligation or a policy to maintain and provide its employees with continued medical insurance coverage after termination or retirement. The Public Employees Benefits Board (PEBB) plan document offers a subsidized retirement coverage to its plan participants and the Port can terminate medical insurance with no future obligation or liability to PEBB or its retirees. In order to be in compliance with GASB Statement No. 75, the Port adopted and implemented this statement in 2018.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year ended December 31:

	2018
OPEB Liabilities	$898,057
OPEB Assets	0
Deferred Outflow of Resources	3,972
Deferred Inflow of Resources	0
OPEB Expense	$17,771

The District provides to its retirees employer subsidies for postemployment medical insurance benefits (OPEB) provided through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

General Information about the OPEB Plan

<u>Plan Description</u>

The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents. District 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.

Benefits Provided

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 subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of $150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy will be increased to $168 per month. The retirees and spouses currently pay the premium minus $150 when the premium is over $300 per month and pay half the premium when the premium is lower than $300.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Employees Covered by Benefit Terms

At December 31, the following employees were covered by the benefit terms:

Active Employees	16
Inactive Employees or beneficiaries currently receiving benefits	2
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	0
Total	18

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions.

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.

Total OPEB Liability

The Port's total OPEB liability was measured as of June 30, 2018, and was determined using the alternative measurement method as of that date, which is permitted under GASB Statement No. 75. The data (e.g., age rang is compiled into the Office of State Actuary GASB No. 75 reporting tool for all active and inactive members to determine the Actuarial Accrued Liability (AAL) and normal cost. The Office of the State Actuary report involves calculations that require assumptions about future economic and demographic events.

The alternative measurement was based on the following methods and assumptions:

Methodology:

Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately

Assumptions:

Discount Rate – Based on Bond Buyer
General Obligation 20—Bond Municipal Index:

Beginning of Measurement Year	3.58%
End of Measurement Year	3.87%

Projected Salary Changes	3.75% Plus Service-Based Increases
Healthcare Trend Rates	Initial Rate Approximately 7%, Trends Down to Around 5% in 2080

Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, see Office of the State Actuary's 2017 PEBB OPEB Actuarial Valuation Report.

Mortality Rates:

Based Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Sc all BB
Projection Period	Generational
Inflation Rate	3.00%
Post-Retirement Participation Percentage	65.00%
Percentage with Spouse Coverage	45.00%

Changes in the Total OPEB Liability

	2018
Balance – January 1	$886,449
Service Cost	36,525
Interest	32,933
Changes in Experience and Data Assumptions	(51,687)
Changes in Benefit Terms	0
Benefit Payments	(6,163)
Other	0
Total	898,057

Sensitivity of the Total OPEB Liability

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate.

The following presents the total OPEB liability of the District calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current discount rate and health care cost trend rates:

Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	$1,088,148	**$898,057**	$748,256
Healthcare Trend	$731,993	**$898,057**	$1,114,177

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The District recognized OPEB expense for the year ended December 31 as follows:

	2018
Service Cost	$36,525
Interest Cost	32,933
Changes in Experience and Data Assumptions	(51,687)
Total	$17,771

At December 31, 2018, the Port reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Payments subsequent to the measurement date	$3,972	$0

Deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31	
2019	$3,972

NOTE 11 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$525,056
Pension assets	$0
Deferred outflows of resources	$140,263
Deferred inflows of resources	$250,723
Pension expense/expenditures	$ 70,070

State Sponsored Pension Plans

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

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

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

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

Public Employee's Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2 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 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January – August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**
September – December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**

Port of Kennewick's actual contributions to the plan amounted to just under $56 thousand.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2 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 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service 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 3 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 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – August 2018		
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%**
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.83%**	**7.41%**

Port of Kennewick's actual contributions to the plan amounted to just under $83 thousand.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017.

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 *2017 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.5% salary inflation
- **Salary increases**: In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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 that impact the Port PERS 1, 2, & 3 plans since the last valuation.

- Lowered the valuation interest rate from 7.70% to 7.50%.
- Lowered the assumed general salary growth from 3.75% to 3.5% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 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 employers, whose rates include a component for the PERS 1. 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 7.4 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 7.4 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 markets 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, 2018, 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	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$433,480	$352,727	$282,779
PERS 2/3	$788,237	$172,329	$(332,647)

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, 2018, Port reported a total pension liability of $525 thousand for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$352,727
PERS 2/3	$172,329

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

	6/30/18	6/30/17	Change
PERS 1	.007898%	.007135%	.000763%
PERS 2/3	.010093%	.009177%	.000916%

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, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	$66,306
PERS 2/3	$3,764
TOTAL	**$70,070**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, 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	$0	$(14,017)
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	$28,063	$0
TOTAL	**$28,063**	**$(14,017)**

PERS 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$21,123	$(30,172)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(105,749)
Changes of assumptions	$2,016	$(49,043)
Changes in proportion and differences between contributions and proportionate share of contributions	$47,717	$(51,739)
Contributions subsequent to the measurement date	$41,344	$0
TOTAL	**$112,200**	**$(236,703)**

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense if the net amount is under $1,000. Other amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year	PERS 1	PERS 2/3
	Yearly Amortization	Yearly Amortization
2019	613	(8,590)
2020	(3,064)	(37,160)
2021	(9,195)	(68,972)
2022	(2,371)	(28,213)
2023	-	(13,115)
Thereafter	-	(9,796)
Total Net Deferred (Inflows)/Outflows	(14,017)	(165,847)

NOTE 12 – PLEDGES OF FUTURE REVENUES

In August of 2009, the Port of Kennewick entered into an interlocal agreement with the City of Kennewick establishing a Local Revitalization Financing Agreement as allowed by the State of Washington. The Port pledges the increased property taxes due to new construction stimulated by the City of Kennewick's bond financing in an amount not to exceed $14,000 per year for a period of 25 years. The Port reports the revenues and expenses within the non-operations on the Statement of Revenues, Expenses and Changes in Net Position.

NOTE 13 – PROPERTY TAX

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

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

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

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

The Port's regular tax levy for 2018 was $0.33 per $1,000 on an assessed valuation of $12.2 billion for a total regular tax levy of approximately 4.1 million.

NOTE 14 – RISK MANAGEMENT

Port of Kennewick is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2018, there are 207 members in the program.

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

The program acquires liability insurance through their Administrator, Clear Risk Solutions that is subject to a per-occurrence self-insured retention (SIR) of $100,000, with the exception of Wrongful Acts and Law Enforcement Liability which has a self-insured retention of $25,000. Members are responsible for $1,000 to $10,000 deductible for each claim, while the program is responsible for the $100,000 retention. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of $100,000 of the self-insured retention, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of $1,922,394.

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

Privacy and Network Liability coverage is offered with a $10,000 member deductible and $40,000 self-insured retention for systems using encryption and $50,000 member deductible and $50,000 self-insured for those without encryption.

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

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

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

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ended December 31, 2018, were $2,809,430.

The Port of Kennewick had no other material claims in 2018 other than two ongoing claims from 2017 (collapse of the 211-building due to the heavy snow fall) and slip and fall. The Port received $149 thousand of the insurance proceeds to date with approximately $762 thousand left to collect when the Port constructs the new building in 2019. However, at the end of the due date to construct the new building, the Port will receive the full $910 thousand of insurance proceeds regardless if the Port replaces the building. The slip and fall claim at the Vista Field Development Facility liability deductible is $1 thousand and was paid in 2018. The Port does not anticipate to be liable for any other cost.

Port of Kennewick has chosen to be self-insured for unemployment insurance purposes. The Port had no claims during 2018 and no unemployment claims are outstanding as of December 31, 2018. The Port has sufficient unrestricted cash as disclosed in Note 5, *Deposits and Investments* to pay any future claims if incurred, and reserve policy in place (Resolution 2018-27).

NOTE 15 – SUBSEQUENT EVENTS

In accordance with the Port's Comprehensive Scheme of Development Plan and Budget, on March 12, 2019, the Port entered into the following construction projects:

1) Vista Field Phase-One(A) Infrastructure for the construction of a road, utilities, landscape improvements, and a water feature for approximately $5 million plus applicable tax.
2) Wine Tasting Building and parking lot in the Columbia Gardens Wine & Artisan Village for approximately $1.5 million plus applicable tax. This project is partly funded by the $910 thousand insurance proceeds from the 211- building collapse claim (*see also Note 14 – Risk Management*).

Port of Kennewick

MCAG No. 1699

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

As of June 30,

	2018
Total OPEB liability - beginning	$886,449
Service cost	36,525
Interest	32,933
Changes in benefit terms	0
Differences between expected and actual experience	0
Changes of assumptions	(51,687)
Benefit payments	(6,163)
Other changes	0
Total OPEB liability - ending	898,057
Covered-employee payroll	1,170,103
Total OPEB liability as a % of covered payroll	76.75%

Note to Schedule

Changes of benefit terms: Amounts presented reflect a $150 per month in the retirees' share of health insurance premiums for 2018.

Changes of assumptions: Changes assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are discount rates used in each period:

2018 3.58% to 3.87%

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the Port will present information for only those years for which information is available.

Port of Kennewick

MCAG No. 1699

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

As of June 30,

PERS 1

	2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	0.007%	0.008%	0.007%	0.008%
Employer's proportionate share of the net pension liability	$ 391,535	$ 455,094	$ 338,561	$ 352,727
Employer's covered employee payroll	$ 857,894	$ 947,168	$ 982,936	$ 1,058,341
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.64%	48.05%	34.44%	33.33%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%

PERS 2 & 3

	2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	0.007%	0.011%	0.009%	0.010%
Employer's proportionate share of the net pension liability	$ 345,229	$ 546,188	$ 318,857	$ 172,329
Employer's covered employee payroll	$ 857,894	$ 947,168	$ 982,936	$ 1,058,341
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.24%	57.67%	32.44%	16.28%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the Port will present information for only those years for which information is available.

Port of Kennewick

MCAG No. 1699

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PORT'S CONTRIBUTIONS

As of December 31,

PERS 1

	2015	2016	2017	2018
Statutorily or contractually required contributions	$ 39,197	$ 46,063	$ 49,899	$ 55,712
Contributions in relation to the statutorily or contractually required contributions	$(39,197)	$ (46,063)	$ (49,899)	$ (55,712)
Contribution deficiency (excess)	0	0	0	0
Covered employer payroll	892,400	965,689	1,018,370	1,100,187
Contributions as a percentage of covered employee payroll	4.39%	4.77%	4.90%	5.06%

PERS 2 & 3

	2015	2016	2017	2018
Statutorily or contractually required contributions	$ 51,950	$60,162	$69,853	$82,516
Contributions in relation to the statutorily or contractually required contributions	$(51,950)	$(60,162)	$ (69,853)	$ (82,516)
Contribution deficiency (excess)	0	0	0	0
Covered employer payroll	892,400	965,689	1,018,370	1,100,187
Contributions as a percentage of covered employee payroll	5.82%	6.23%	6.86%	7.50%

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the Port will present information for only those years for which information is available

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

Board of Commissioners
Port of Kennewick
Kennewick, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port of Kennewick, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port of Kennewick's basic financial statements, and have issued our report thereon dated July 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Port of Kennewick's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Port of Kennewick's internal control. Accordingly, we do not express an opinion on the effectiveness of Port of Kennewick's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port of Kennewick's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Yakima, Washington
July 23, 2019