QUESTIONS & RESPONSES #01

ITB / TITLE	070162 | Direct Purchase of 2016 LTGO Bonds
CONTACT	Heather Shadko, PROCUREMENT
EMAIL	procurement@portoftacoma.com
PHONE NUMBER	253-428-8697
SUBMITTAL DUE DATE	January 29, 2016 @3:00 PM (PST)
Q&A ISSUE DATE	January 27, 2016

PROPOSER QUESTIONS	PORT RESPONSES	RFP/ RFQ Section
Can you please send me an electronic copy of the Port's 2012 audit?	See attached	
I'm not entirely clear how the Port can levy taxes. In Section B, Scope of Services, the second paragraph states the Port may levy 45 cents per one thousand dollars of assessed value for general port purposes. The paragraph goes on to say, the Port can levy for the payment of principal and interest on GO bonded debt in excess of any levy made by a port district under the 45 cents per thousand of assessed value. I think this means, the Port has a maximum mill levy of 45 cents. The maximum levy available for debt service is the difference in mills between what it levies for general purposes and 45 mills. Is that correct?	Please see section VI of the Port of Tacoma's 2016 budget available at http://portoftacoma.com/sites/default/files/Budget2016-PortofTacoma.pdf . The maximum levy is the lower of the 45 cents and the limit imposed by the 1% increase approved by Initiative 747 in 2001, and made into law in 2007 (Page VI-2 of the budget document). The current maximum is about 29.25 cents per thousand of valuation. As that increases with property value over time, it will eventully be capped at the 45 cents.	Section B
Will our firm signing an investor letter confirming that the Bank will not redistribute the loan in a securities offering fulfill what is being requested in this section by the Port Authority?	The only reference is that the Bank is not acquiring the bonds with an intent to re-sell as securities. We've accepted modifications that are reasonable. Loan participation is acceptable but the Port will only interact with one bank. See example letter	
In addition,our firm typically orders CUSIPS on all its private placements for tracking purposes only. Please confirm that this is acceptable to the Port Authority.	That is acceptable, not preferable. A cusip identifies a publicly traded security. Alternatively, we believe that a private placement numbers (PPN) can be used as a unique identifier for private placements	

Port of Tacoma Annual Report 2012

CEO John Wolfe talks with Susan Gardner, director of terminal operations at APM Terminals. Horizon Lines serves the Alaska trade with twice-weekly sailings from the Tacoma terminal.

A road map for customer and community success

Journeys often contain detours and bumps, but a solid road map keeps the destination in sight. That's why we developed a strategic plan with detailed goals and initiatives to guide our actions over the next 10 years.

The past year was concentrated on mapping a plan that will drive us forward despite the hairpin turns of the economy's slow climb out of a recessionary valley. We developed a route that focuses on four areas that build on our unique strengths: making strategic investments, creating new business opportunities that contribute to financial sustainability, caring for our customers and continuing a strong commitment to our community.

The year's progress included working with Washington United Terminals' operator to welcome the Grand Alliance container business and signing a lease with Targa Sound Terminal to expand its petroleum logistics business, diversifying our cargoes.

We also hailed the return of boat and yacht building, as well as related businesses, to a Marine Industrial Center on the site of a former World War II-era naval shipyard.

We continued to chart improvements to terminal, road and rail infrastructure, while outlining new ways to make our operations cleaner and greener.

Developing the road map coincided with taking a fresh look at ourselves to better understand what makes us different from other ports. What we heard time and again was that our partnerships—with customers and community stakeholders—set us apart.

Our new logo reflects the connections we make in this rapidly changing marketplace. It grows from our renewed mission to "deliver prosperity while connecting customers, cargo and community with the world."

We are proud to fuel our state's economy through global trade, and we look forward to your continued partnership as we travel the road map together.

John Wolfe
Chief Exectutive Officer
Port of Tacoma

Leadership

The five-member commission is the governing body of the Port of Tacoma, setting policy, authorizing major expenditures and reviewing all spending. The commission appoints a chief executive officer. Commissioners are elected by the voters of Pierce County, Wash., to four-year terms. The commission's regular public meetings are streamed live on the Web and archived for later viewing. Find meeting dates, agendas and memos at www.portoftacoma.com/webstreaming.

Commissioners

Our commission: Don Johnson, Connie Bacon, Richard Marzano, Don Meyer and Clare Petrich

Don Johnson

Elected to the commission in 2007, Don Johnson retired as vice president and general manager of Simpson Tacoma Kraft, a leading Tacoma pulp and paper producer, in March 2008.

Johnson serves on the Puget Sound Regional Council's Transportation Policy Board, and the boards of the Tacoma-Pierce County Chamber, Goodwill, Goodwill Industries Foundation and Goodwill's Finance Committee. He is the past chair of the MultiCare Health Care Foundation. Johnson is the former chair of the University of Washington Business School Advisory Board, the Tacoma-Pierce County Chamber Board, the United Way of Pierce County Board and the United Way's Annual Campaign. He also chaired the search committee for the CEO of the Tacoma-Pierce County Chamber.

Johnson holds a bachelor's degree in mechanical engineering from the University of Washington.

Connie Bacon

Connie Bacon was elected to the Port Commission in 1997.

She serves on the board of directors for the Asia Pacific Cultural Center, Fuzhou Advisory Committee, Water Partners Committee, Public Access Committee and the Washington Economic Development Commission. Bacon co-chairs the Urban Waters project, is a senior fellow of the American Leadership Forum and member of the advisory board to the Port of Tacoma Endowed Chair at the University of Washington Tacoma.

Bacon is a former executive director of the World Trade Center Tacoma and served eight years as special assistant to former Washington Gov. Booth Gardner. She is a graduate of Syracuse University and earned a master's degree from The Evergreen State College.

Richard Marzano

Dick Marzano was elected to the commission in 1995. A Tacoma longshore worker for more than 36 years, he served as president of the International Longshore and Warehouse Union Local 23 for six years.

Marzano is the co-chair of the State Route 167 Completion Coalition and serves on the Washington Public Ports Association's Board of Trustees, Puget Sound Regional Council's Executive Board, Pierce County Sheriff's Office Executive Advisory Board and the Valley Cities Association Board. He has served on WPPA's six-member executive committee.

He is a former member of the Freight Mobility Strategic Investment Board, appointed by former Washington Govs. Gary Locke and Chris Gregoire, and a former board member of the Foss Waterway Development Authority and St. Leo's Hospitality Kitchen.

Don Meyer

Don Meyer is the former executive director of the Foss Waterway Development Authority and a former deputy executive director of the Port of Tacoma. He joined the commission in 2010.

Meyer currently serves on the Pierce County Regional Council, South King County Transportation Board and Tacoma Waterfront Association. He is a member of the Alaska State and Fife/Milton/Edgewood Area chambers of commerce. Meyer recently served on the Governor's Connecting Washington Task Force on transportation issues, is a member of Tacoma Rotary #8 and owns a small business in Pierce County.

Born and raised on a South Dakota farm, Meyer holds a bachelor's degree in business from Pacific Lutheran University and a master's degree in business administration from the University of South Dakota.

Clare Petrich

A commissioner since 1995, Clare Petrich is a small business owner with strong ties to Tacoma's maritime heritage. She is co-founder and chair of the Commencement Bay Maritime Fest, and she is deeply involved in maritime heritage research.

Petrich serves on the Joint Municipal Action Committee, the Local Emergency Planning Committee, Pacific Northwest Waterways Association, the Youth Marine Foundation, the Flood Control Zone District Committee, the Washington Council on International Trade and the Tacoma-Pierce County Economic Development Board. She is also president of the Puget Sound Regional Council's Economic Development District Board and secretary for the Trade Development Alliance of Greater Seattle.

Petrich is a graduate of Manhattanville College in New York and received her master's degree from the University of Virginia.

Chief executive officer

John Wolfe

John Wolfe was named chief executive officer in June 2010. He sets the organization's vision and strategy, and oversees a staff of about 250.

Before being named CEO, Wolfe served five years as the Port's deputy executive director.

Wolfe spent several years at the Port of Olympia before joining the Port of Tacoma, first as Olympia's director of operations and marine terminal general manager, followed by two years as the executive director.

He also spent 10 years with Maersk Sealand/APM Terminals in Tacoma, most recently as the terminal's operations manager.

A native of Puyallup, Wash., Wolfe earned a bachelor's degree in business administration from Pacific Lutheran University in 1987.

Strategic investments

We are making strategic investments that enhance our waterway, terminal, road, rail and industrial property infrastructure to create the most efficient, productive and cost-effective system to move freight to market.

Our experienced longshore labor force kept 260,000 short tons of breakbulk moving quickly and efficiently through Terminal 7. Pictured: Mikki Clow

Investing for the future

We plan to invest approximately $500 million in our infrastructure over the next decade to move cargo more efficiently to market. These strategic investments will help our customers stay competitive and bring more jobs to our community.

We recently completed $1 million in restoration work at Terminal 7 to meet the growing demands of our breakbulk business. In 2012, the volume of breakbulk cargo crossing our docks—the tractors, mining equipment and other items too large or bulky to fit in a container—increased 68 percent to 260,000 short tons.

These cargo volumes have climbed steadily since 2009, driven by strong demand overseas for construction and agricultural equipment, as well as more calls in Tacoma by larger roll-on, roll-off vessels.

Completed in March 2013, the restoration work on the 50-year-old wharf allows for greater flexibility in cargo movement at the Port-operated terminal, improves traffic flow and provides additional space for pre-positioning large loads.

Design work also began in 2012 to redevelop the peninsula bounded by the Sitcum and Blair waterways to expand container terminal capacity.

Initial designs call for realigning Piers 3 and 4 on the north end of the Blair Waterway to allow for simultaneous berthing of two of the largest ships in the world. The design includes installing

100-gauge crane rail to support larger container cranes capable of serving ships up to 24 containers wide.

Along with our terminals, we plan to expand our rail infrastructure over the next five years to receive and deliver full 8,000- to 10,000-foot trains. The new arrival and departure tracks will provide better access to the Port industrial area, as well as free up track capacity in intermodal yards and allow our short-line service, Tacoma Rail, to better serve its customers.

The Port's strength lies in our proximity to the Pacific Rim and Alaska, naturally deep water, extensive intermodal rail network and land available for expansion. By investing in our terminal and rail infrastructure, we're positioning Tacoma for growth to ensure we remain a highly desirable international logistics hub.

Coalition supports completion of State Route 167

The State Route 167 Completion Coalition supports finally finishing State Route 167 by adding the last six miles between Puyallup and Tacoma originally envisioned in the highway's design 30 years ago.

Completing the highway would improve access to the Port by providing the "last mile" for agricultural and manufactured products making their way to our terminals for export. The project would provide a direct link to the Kent and Puyallup River valleys, the second largest collection of distribution centers and transload warehouses on the West Coast. A completed highway is expected to fuel up to $10.1 billion in job growth.

The coalition formalizes the loose group of business, labor, environmental, tribal and government organizations that have advocated for the project for years. Hundreds of interested citizens, businesses and organizations are involved.

Learn more about the coalition and the value of investing in this key piece of trade infrastructure at sr167.portoftacoma.com.

New business opportunities

To create opportunity for further investments, we focus on attracting new business opportunities that have healthy income streams and increase the diversity of our business portfolio.

Targa Sound Terminal expansion to diversify cargoes

Targa Sound Terminal, a locally grown company, signed a 25-year lease to expand its petroleum operations to the former Kaiser Aluminum site on the east side of the Blair Waterway.

Targa's current location on Marine View Drive is the largest renewable fuel facility in Washington state. The planned expansion would add about 80 acres of rail logistics and tank storage with ship and barge loading and unloading capacity. The two sites are to be connected by pipeline.

"Our plans for the Kaiser property will result in the best liquid bulk logistics facility in our region," Troy Goodman, president of Targa Sound Terminal, told commissioners when the lease was announced. "We look forward to working with our community and the Port on this project."

Activity at Kaiser's Tacoma aluminum smelter facility stopped in 2002 after more than 60 years. We purchased the property in 2003.

During the past nine years we have removed thousands of tons of waste from the site, demolished buildings and cleaned up significant portions of the property. The land was contaminated with polycyclic aromatic hydrocarbons (PAHs), which result from burning fuels, and polychlorinated biphenyl (PCB), formerly used in transformers and electric engines.

Targa estimates it will invest \$80 million to \$150 million building the new facility. The terminal expansion would be

Troy Goodman, president of Targa Sound Terminal, and Don Esterbrook, the Port's chief operations officer, at the company's current location on Marine View Drive.

served by the East Blair 1 wharf, finished in 2009, and North Lead tracks currently under design.

Targa also plans significant stormwater system improvements to meet or exceed requirements.

"Our strategic goals include diversifying our business portfolio by adding growth in bulk cargoes," said Don Esterbrook, chief operating officer. "Targa Sound Terminal's proposal will put a formerly contaminated site back into productive use, creating jobs and economic growth for our community. We are thankful to work with a locally grown company that shares our environmental stewardship and community values."

Targa aims to have the facility operational as early as May 2014. The company estimates construction would create 100 jobs and final operations would add 50 new jobs.

Marine industrial complex born: Military boat building returned to the Earley Business Center in the fall when SAFE Boats International opened a production facility to manufacture 80-foot aluminum patrol boats for the U.S. Navy. The Bremerton-based company is operating in the same high-bay buildings originally constructed for naval shipbuilding during World War II.

The center has blossomed into a humming marine industrial complex. It's also home to Citadel Marine Center, a full-service repair and refit shop, and Washington Industrial Coatings, experts in industrial coatings and application.

Pontoon construction creates jobs: Tacoma's Concrete Technology Corporation is constructing 44 100-foot-long pontoons that will provide stability and flotation for the new State Route 520 bridge in Seattle. Construction on the Washington State Department of Transportation project has generated more than 170 family-wage jobs, with the majority in such skilled trades as carpentry, concrete and iron work.

Customer care

We're serious about our tagline, "People. Partnership. Performance." We care deeply about our business relationships with customers and key stakeholders.

Rising to the challenge when business booms

We welcomed several new shipping lines to Tacoma in July when the Grand Alliance and its associated carriers began calling at Washington United Terminals (WUT).

The Grand Alliance consists of three of the world's largest shipping lines: Germany's Hapag-Lloyd, Hong Kong's Orient Overseas Container Line and Japan's NYK Line, along with associated carrier ZIM Integrated Shipping, based in Israel. The move to Tacoma also prompted Hapag-Lloyd to shift two services it jointly operates with Hamburg Süd and U.S. Lines.

Tacoma's container volumes grew 25 percent overnight, and our container services are now connected to locations spanning the globe, from Asia, Europe and Australia to South and Central America. The addition of the shipping line consortium fully uses the 105-acre terminal operated by Hyundai Merchant Marine and brings more jobs to our community.

In anticipation of new business, WUT added two super-post-Panamax cranes in 2009, and we extended its berth in 2010 to handle two containerships simultaneously. The new container volumes required maximizing every square inch of terminal space, so the terminal shifted from a wheeled to a grounded operation. It added eight rubber-tired gantry cranes in May to stack containers four wide and five high.

To handle the associated increase in truck traffic, we built an eight-lane staging area adjacent to the terminal. Capable of

Nathan Hartfield, journey-level mechanic, is part of our dedicated maintenance team that keeps our fleet of 28 straddle carriers operating at 99.99 percent reliability.

staging up to 225 drayage trucks, it helps keep traffic moving in and out of all terminals in the Port industrial area.

Like any new, large-scale venture, the transition has had its share of challenges. We continue to partner with WUT to streamline terminal operations, meet regularly with the trucking community to find solutions and have provided a site for the International Longshore and Warehouse Union Local 23 to train workers in new roles and on new equipment.

We continue to work with our shipping partners by focusing on the people and rail connections critical to an efficient operation. We are committed to excellence and adding value to customer supply chains.

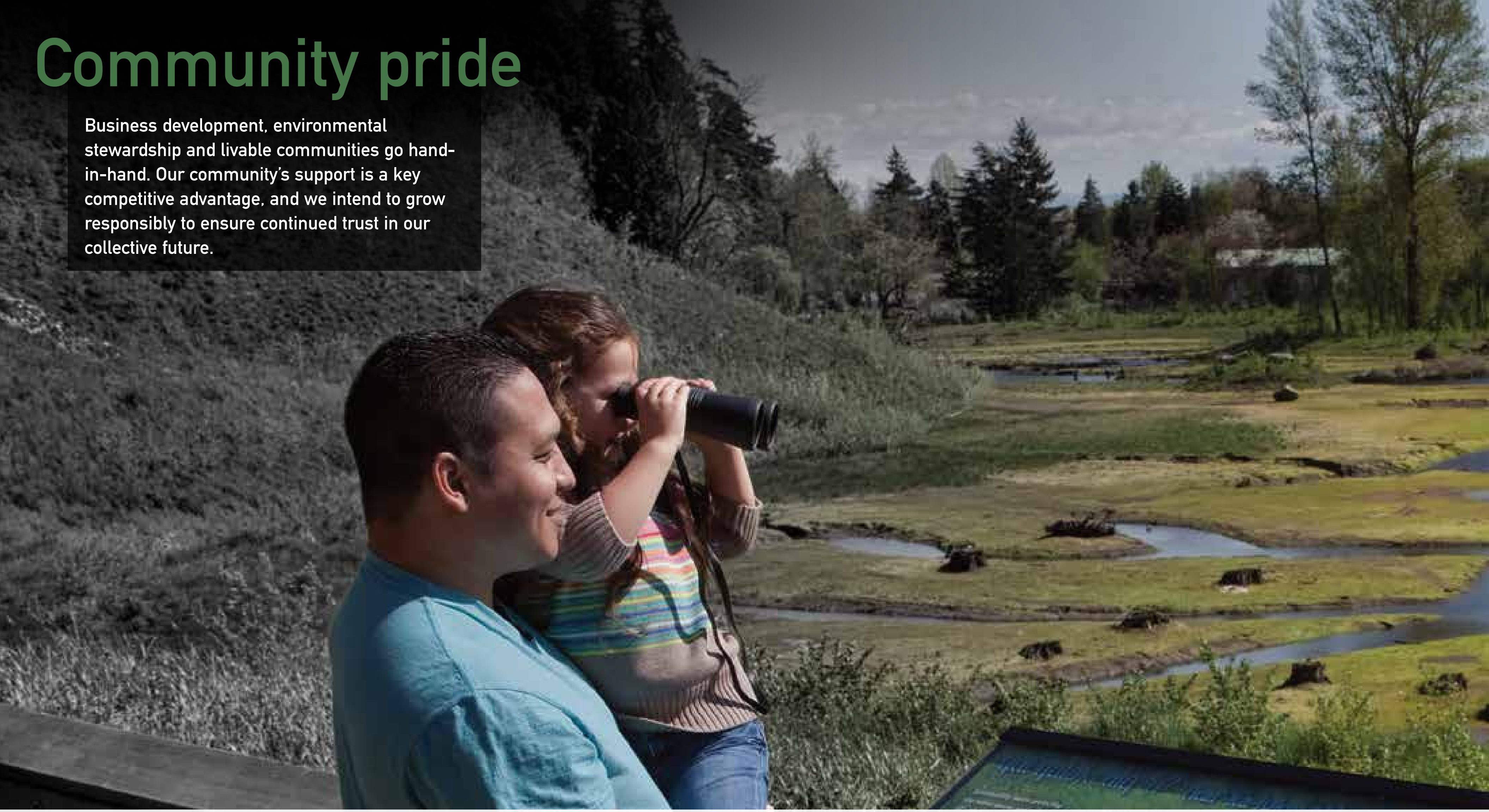
Keeping cargo moving: Our maintenance team kept our fleet of 28 straddle carriers operating at 99.99 percent reliability and eight container cranes in working order 99.56 percent of the time. Their hard work keeps cargo moving through our North Intermodal Yard and two associated container terminals.

Grain lease extended: We signed a 25-year extension with Cargill in December for our bulk grain handling facility. Operated by Tacoma Export Marketing Company (TEMCO), the grain elevator is a major export center for corn and soybeans from the U.S. Midwest and employs about 80 people.

Summit Awards honor leadership: Our first-ever Summit Awards recognized MacMillan-Piper, Totem Ocean Trailer Express and the International Longshore and Warehouse Union Local 23 for outstanding contributions to Port business and our community. We will present the next round of Summit Awards May 23 at our 2013 Annual Breakfast. Learn more at www.portoftacoma.com/summits.

Community pride

Business development, environmental stewardship and livable communities go hand-in-hand. Our community's support is a key competitive advantage, and we intend to grow responsibly to ensure continued trust in our collective future.



Habitat strategy prepares for future growth

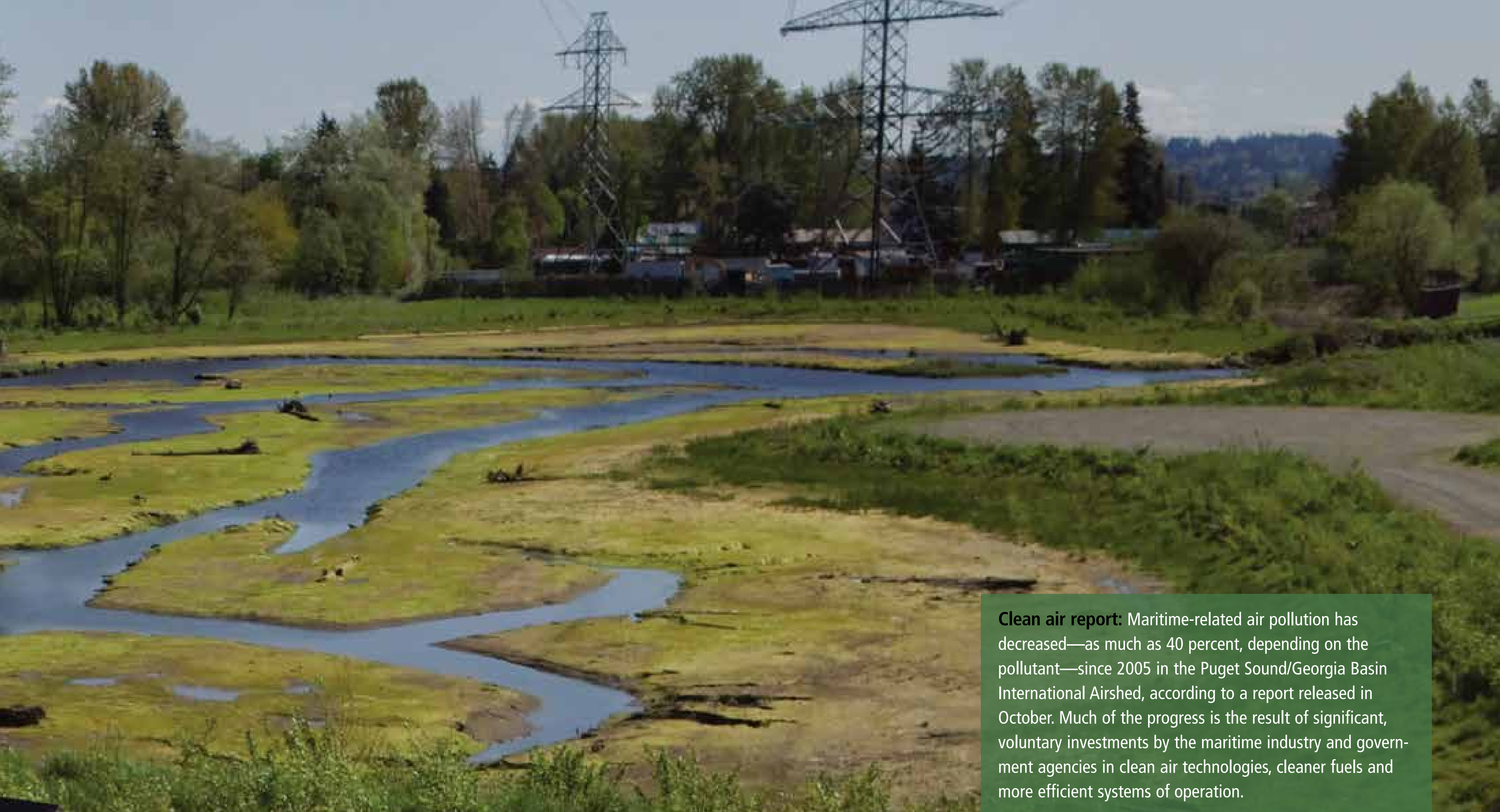
We're restoring critical habitat today to prepare for future growth.

Locating habitat sites and determining when to build them is a strategic decision. Our commission adopted the Port-wide Habitat Mitigation Strategy in October to guide long-term habitat decisions, preserve Tacoma's working waterfront and fully leverage the benefits of well-planned sites.

To date, we have restored about 100 acres for salmon and other wildlife to make up for habitat lost to industrial development. The mitigation strategy recommends investing up to $20 million to restore up to 100 acres in advance of planned infrastructure investments.

The additional acreage is contained within three sites identified years ago by our former environmental director, Richard Gilmur. The June 2011 opening of the Richard C. "Dick" Gilmur Shoreline Restoration and Kayak Launch marked the first step to restore one of these sites, a 17-acre swath of shoreline along Marine View Drive and more than 40 acres of marine intertidal area.

Habitat restoration sites are usually built when existing habitat is converted to an industrial use. Developing sites several years before planned impacts allows the habitat to mature and provides a higher return on investment.



Our 30-acre Place of Circling Waters habitat site along Hylebos Creek provides prime viewing of birds, salmon and other wildlife.

Mature habitat is more valuable because it is already well established and fully functioning. For example, we estimate we'd need to create 28 acres of new wetlands habitat to meet regulatory obligations to replace five acres of wetlands used for industrial development. However, we could meet those same obligations with only five acres of mature habitat in place for 10 years—a one-to-one ratio.

The strategy also allows us to maximize a habitat project's positive environmental impact. Our 30-acre Place of Circling Waters habitat site consisted of five separate projects to fulfill regulatory requirements, but the site was designed as one to provide greater environmental value than smaller, separate projects. Connected to several other restored areas along Hylebos Creek, the site is part of a larger effort to rejuvenate salmon runs.

Many of these sites provide the public with access to view the beauty of our region and the jobs that help sustain it.

Clean air report: Maritime-related air pollution has decreased—as much as 40 percent, depending on the pollutant—since 2005 in the Puget Sound/Georgia Basin International Airshed, according to a report released in October. Much of the progress is the result of significant, voluntary investments by the maritime industry and government agencies in clean air technologies, cleaner fuels and more efficient systems of operation.

We will use the results to update the goals of the Northwest Ports Clean Air Strategy, a joint effort with the ports of Seattle and Metro Vancouver, B.C., to focus future efforts and investments.

Community service: Employees from throughout the Port volunteer quarterly to pick up roadside litter along State Route 509 as part of the state's Adopt-a-Highway Program. International Longshore and Warehouse Union Locals 22 and 28, representing our maintenance workers and security officers, adopted the stretch of highway in the Port industrial area.

Look ahead to 2013

Our strategic plan is keeping us focused on delivering prosperity for the region and our community.

Focus stays sharp on cargo, finances, environment, jobs

With solid progress tallied in the first year toward our 10 targets in 10 years—the measures of our strategic plan's success—we will remain focused in 2013 on building cargo volumes, maintaining financial strength and improving the environment while creating jobs.

Economic forecasts for 2013 remain guarded, but better-than-expected results for 2012 cargo volumes prompt cautious optimism. Double-digit growth in both imports and exports propelled a 16 percent gain in our 2012 container volumes, and breakbulk cargo volumes ended the year 68 percent higher.

While container volume growth reflects the addition of the Grand Alliance and its associated carriers in July, it also signals significantly stronger volumes from established customers. We expect demand for breakbulk cargo to remain solid through 2013, and auto imports, while down slightly in 2012, are expected to rebound.

By maximizing the use of existing facilities and focusing on strategic improvements to our infrastructure, we are setting the stage for sustained financial strength so we can continue to reinvest for the future.

Our positive return on assets, which grew by almost 14 percent in 2012, shows our focus on maximizing the capacity of our existing facilities and property. Meanwhile, net income before the tax levy was up 28 percent to $20.7 million, demonstrating

Longshore workers drive Mazda vehicles off the *Columbia Highway* at the Port of Tacoma's Blair Terminal.

that the $12.5 million in taxes we received went toward reinvestment, not subsidizing operations.

Our reinvestment plans include cleaning up contaminated industrial property and putting it back into productive use. We have received approvals to clean up 111 acres by mid-2014.

We also will continue to look for ways to reduce air pollution. Significant, voluntary investments by the maritime industry and government agencies have already helped reduce maritime-related diesel emissions by almost 24 percent since 2005. Along with the ports of Seattle and Metro Vancouver in British Columbia, we will update the Northwest Ports Clean Air Strategy this year to help concentrate future efforts.

With a relentlessly sharp focus on our business, the Port of Tacoma is poised for more significant progress toward our strategic plan goals.

Measuring success

We marked solid progress in 2012 toward meeting the measures of our strategic plan's success. The highlights from our first year include:

Containers

Double container volume

2022 TARGET

3 million TEUs

2012 — 1.7 million TEUs

Breakbulk

Increase breakbulk volume by 30%

2022 TARGET

200,000 short tons

2012 — 260,000 short tons

Auto imports

Increase auto import volume by 20%

2022 TARGET

200,000 units

2012 — 148,000 units

Net income

Increase net income by 50%

2022 TARGET

$32 million

2012 — $22.8 million

Return on assets

Increase return on assets by 35%

2022 TARGET

3%

2012 — 1.7%

Cleaner air

Reduce diesel pollutants attributed to cargo operations by 85% from 2005 baseline

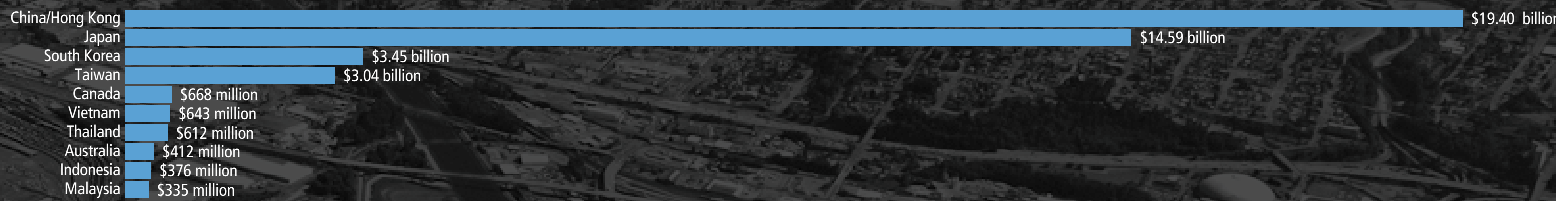
2022 TARGET

0.6 tons of emissions per 1 million tons of cargo

2012 — 3.2 tons of emissions per 1 million tons of cargo

Trade statistics 2012

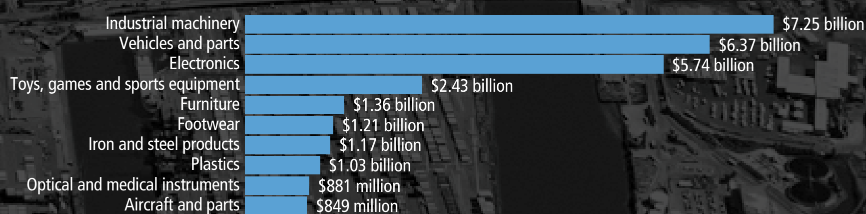
Top 10 international trading partners
(value of two-way trade)



Trading partners 11-20: Singapore $286 million, Philippines $246 million, Germany $232 million, Russia $154 million, United Kingdom $147 million, India $137 million, Mongolia $121 million, Sweden $108 million, Netherlands $77 million, Brazil $55 million.

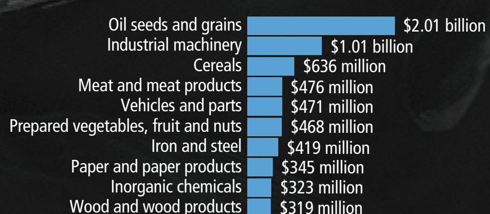
Value of two-way international trade totaled $46.04 billion.
(Source: World Institute for Strategic Economic Research)
Our annual trade with Alaska is estimated at $3 billion. If ranked with our international trading partners, Alaska would be fifth.

Top 10 import commodities by value



Value of international imports totaled $35.95 billion.
(Source: World Institute for Strategic Economic Research)

Top 10 export commodities by value



Value of international exports totaled $10.09 billion.
(Source: World Institute for Strategic Economic Research)

2012 financial highlights

	dollars in thousands
Revenues	124,377
Increase in net position	22,780
Working capital	124,588
Capital additions	20,786
Land, facilities and equipment	930,720
Net long-term debt	621,859
Net position	499,758
Debt service coverage ratio (senior lien)	5.5

2012 trade highlights

Total TEU's	1.7 million
Intermodal lifts	439,760
Total tonnage	17.9 million short tons
Auto units	148,239
Grain	4.8 million short tons
Breakbulk cargo	259,915 short tons
Logs	66.4 million board feet
Vessel calls	1,106
Value of foreign trade	$46.04 billion
Value of domestic trade	$3 billion (estimate)

Management's Discussion and Analysis

Years ended December 31, 2012 and 2011

INTRODUCTION

The Port of Tacoma's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the Port's 2012 and 2011 financial statements which includes the Enterprise Fund as well as the Post-Employment Health Care Benefits Trust Fund. Port management prepared this MD&A and readers should consider it in conjunction with the financial statements and the notes thereto.

The Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Post-Employment Health Care Benefits Trust Fund.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity, including commitments made for capital expenditures.

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 financial statements include: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows of the Enterprise Fund. The report also includes the following two basic financial statements for the Post-Employment Health Care Benefits Trust Fund: statements of net position and statements of changes in net position.

The statements of net position and the statements of revenues, expenses and changes in net position illustrate whether the Port's financial position has improved as a result of the year's activities. The statements of net position present information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statements of revenues, expenses and changes in net position show how the Port's net position changed during the year. These changes are reported in the period the underlying event occurs, regardless of the timing of related cash flows.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses two funds, an enterprise fund, which is a type of proprietary fund that reports business type activities, and the Post-Employment Health Care Benefits Trust Fund.

Financial Position Summary - Enterprise Fund

The statements of net position present the financial position of the Enterprise Fund of the Port. The statements include all of the Port's assets and liabilities of the Enterprise Fund. Net position serves as an indicator of the Port's financial position. The Port's current assets consist primarily of cash, investments and accounts receivable. A summarized comparison of the Port's Enterprise Fund assets, liabilities and net position at the close of calendar year-end follows:

PORT OF TACOMA's Statements of Net Position (dollars in thousands)

	2012	2011* (Restated)	2010* (Restated)
Current assets	$ 214,063	$ 152,726	$ 141,254
Capital assets, net	964,661	978,978	1,000,407
Restricted investments, bond funds	17,411	16,788	15,801
Other assets	28,672	29,447	26,685
Total assets	**$1,224,807**	**$1,177,939**	**$1,184,147**
Deferred outflows of resources	**$97,992**	**$99,025**	**$46,392**
Current liabilities	$ 89,476	$ 52,392	$ 53,177
Long-term debt	612,125	621,350	630,160
Net bond premium	9,734	10,177	10,596
Long-term debt, net	**621,859**	**631,527**	**640,756**
Other Long-term liabilities	111,706	116,067	80,936
Total liabilities	**$ 823,041**	**$ 799,986**	**$ 774,869**
Invested in capital assets, net of related debt	$ 272,154	$ 315,238	$ 335,366
Restricted — bond reserves	17,411	16,788	16,170
Unrestricted	210,193	144,952	104,132
Total net position	**$ 499,758**	**$ 476,978**	**$ 455,668**

**Net Position for 2010 and 2011 has been adjusted to reflect the adoption of GASB 65 (see Note 1).*

The Port's assets and deferred outflows exceeded its liabilities by $499.8 million at December 31, 2012. Of this amount, $272.2 million is the net investment in capital assets, $17.4 million is restricted for bond reserves and $210.2 million is unrestricted. Net position was $477.0 million at December 31, 2011 of this amount net investment in capital assets was $315.2 million, $16.8 million was restricted for related bond reserves and $145.0 million was unrestricted. The Port's net investment in capital assets represent infrastructure and capital assets for Port terminal and real estate facilities. In 2012 the net investment in capital assets decreased by $43.1 million due primarily to annual depreciation of $30.3 million and additional commercial paper debt of $37.5 million to partially match the $130.0 million swap that became effective in July 2012 (see Note 5), offset by additional capital asset investments and principal payments on debt of $8.8 million.

In 2011 the net investment in capital assets decreased by $19.1 million due primarily to annual depreciation of $30.2 million and a reduction in capital spending, offset by principal payments on debt of $8.4 million. Net increase in net position for 2011 was $21.3 million compared to net increase in net position for 2010 of $21.9 million.

Restricted components of net assets at December 31, 2012, 2011 and 2010 of $17.4, $16.8 and $16.2 million, respectively, are required reserves for the 2001, 2004 and 2005 revenue bonds. In addition, the Port had several restricted investments which were unspent bond proceeds of $6.4 million at December 31, 2010. There were no remaining unspent bond proceeds at December 31, 2012 or 2011. Total restricted investments at December 31, 2012, 2011 and 2010, are $17.4, $16.8 and $15.8 million, respectively.

The change in net position is an indicator of whether the overall fiscal condition of the Enterprise Fund has improved or worsened during the year. The following summary compares operating results for 2012, 2011 and 2010.

PORT OF TACOMA's Statements of Revenues, Expenses and Changes in Net Position (dollars in thousands)

	2012	2011* (Restated)	2010* (Restated)
Operating Income			
Operating revenues	$ 124,377	$ 114,095	$ 103,350
Operating expenses	96,146	89,827	86,365
Total operating income	**28,231**	**24,268**	**16,985**
Non-Operating Revenues (Expenses)			
Ad valorem tax revenues	13,672	14,592	16,196
Interest on general obligation bonds	(9,566)	(9,661)	(9,718)
Net ad valorem tax revenues	**4,106**	**4,931**	**6,478**
Interest income	3,153	2,733	2,632
Net increase in the fair value of investments	777	892	534
Interest expense	(20,117)	(15,810)	(15,643)
Other non-operating expense, net	(6,935)	(3,877)	(5,393)
Total non-operating expenses, net	**(19,016)**	**(11,131)**	**(11,392)**
Increase (decrease) in net assets before capital contribution	**9,215**	**13,137**	**5,593**
Capital contribution	13,565	8,173	16,295
Increase in net position	**22,780**	**21,310**	**21,888**
Net position, beginning of year, as previously reported	476,978	455,668	439,438
Adjustment related to adoption of GASB 65 (see Note 1)	---	---	(5,658)
Net position at end of year	**$499,758**	**$476,978**	**$455,668**
Container Volume (TEUs in thousands)	**1,711**	**1,489**	**1,455**

**Net Position for 2010 and 2011 have been adjusted to reflect the adoption of GASB 65 (see Note 1).*

Revenues: Port revenue in 2012 of $124.4 million increased by $10.3 million and 9.0% over 2011 due to growth in the Port's container and non-container businesses.

The Port's container and intermodal business increased $8.1 million over the prior year. Container revenue increased by $3.1 million as container volume increased by 15.9% over the prior year. Import volume increases were driven by demand for auto parts, furniture, toys and sporting goods and export volume increases were driven by agricultural products and bulk commodities. The volume increases are also attributable in part to cargo diverted from Southern California ports during the eight-day labor strike in late November and early December and as uncertainty continued regarding labor negotiations on the East and Gulf coasts. The corresponding Intermodal revenue increased by $5.0 million, on a volume increase of 31.6% in the Port's north intermodal yard and a 29.7% overall volume increase.

The non-containerized cargo business consists of the Port's breakbulk and auto businesses. Breakbulk accounted for a $3.3 million increase as a result of a 68.4% increase in tonnage from strong overseas demand for construction and industrial and agricultural equipment. The auto business revenue and unit volume decreased by $0.4 million and 8.7%, respectively, reflecting the significant volume in the prior year from autos that were temporarily diverted from other ports.

Revenue in 2011 of $114.1 million increased by $10.7 million and 10.4% over 2010, due to increased cargo volume in the Port's container and non-container businesses. Significant fluctuations include the following in the non-containerized cargo business: breakbulk accounted for a $3.7 million increase as a result of a 68.2% increase in tonnage from industrial and agricultural equipment; the auto business revenue increased by $1.1 million due to a volume increase of 34.2% units, reflecting the growing strength of auto sales in the U.S. and temporary diversion to Tacoma from other ports. Container terminal revenue increased $2.0 million due to a container volume increase of 2.3% over the prior year primarily from increases in exports of agriculture cargoes. The corresponding Intermodal revenue increased by $2.6 million, on a volume increase of 13.4% in the Port's north intermodal yard and a 0.3% overall volume increase.

Expenses: The 2012 operating expense of $96.1 million increased by $6.3 million and 7.0% over 2011. Revenue and volume related operating expenses increased by $3.9 million, reflecting increases in longshore labor in the non-container business and intermodal lift fees and longshore labor in the container business. Facility maintenance expenses increased by $2.9 million due to maintenance dredging, environmental cap and paving repairs.

The 2011 operating expense of $89.8 million increased by $3.4 million and 4.0% over 2010. Revenue and volume related operating expenses increased by $2.5 million in the breakbulk, auto, container, and intermodal lines of business. Environmental expense increased by $0.7 million due to environmental cap repairs and increased environmental monitoring costs.

As a result of the above, the 2012 operating income of $28.2 million increased by $3.9 million and 16.3% from 2011; 2011 operating income increased by $7.3 million and 42.9% over 2010.

Non-Operating Expenses: The 2012 net non-operating expense of $19.0 million was $7.9 million and 70.8% above the prior year. Interest expense of $20.1 million was $4.3 million above the prior year due to interest expense for the $130.0 million forward-starting payment agreement that was effective in July 2012 and the $80.0 million forward-starting payment agreement that was effective in July 2011 at an interest rate of 4.2%.

Other non-operating expense of $6.9 million includes write-offs for asset disposals of $3.3 million, impairment charges on a note receivable of $2.0 million (see Note 20) and on certain capital assets totaling $0.3 million. The prior year expense of $3.9 million included an asset impairment charge for $8.7 million that was partially offset by contribution of property from the Base Realignment and Closure (BRAC) process of $8.1 million.

Ad valorem tax revenue was down $0.9 million compared to the prior year, reducing the net Ad valorem tax revenue after interest expense on governmental bonds by $0.8 million.

The 2011 net non-operating expense of $11.1 million was $0.3 million and 2.3% below the prior year. Other non-operating expenses totaling $3.9 million for 2011 include an impairment charge on certain capital assets totaling $8.7 million. This expense was partially offset by contribution of property from the Base Realignment and Closure (BRAC) process of $8.1 million. Ad valorem tax revenue, net of interest on governmental bond interest expense, was down $1.6 million.

Capital Grant Contribution: The 2012 capital contributions of $13.6 million increased by $5.4 million over the prior year primarily due to the security infrastructure project grants of $9.6 million and environmental remediation project grants of $4.0 million. Capital grant contributions in the prior year were received for road infrastructure projects. The 2011 capital contributions of $8.2 million decreased by $8.1 million over the prior year primarily from a decrease in road infrastructure grants of $14.1 million.

Capital Assets: The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2012, amounted to $964.7 million. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process. The Port's investment in capital assets decreased by $14.3 million since December 31, 2011. The decrease in capital assets is primarily due to depreciation of $30.3 million, offset by capital asset additions for security enhancements of $12.2 million and a berth extension of $3.4 million.

The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2011, amounted to $979.0 million. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process. The Port's investment in capital assets decreased by $21.4 million over December 31, 2010. The decrease in capital assets is primarily due to depreciation of $30.2 million, and an asset impairment expense at a terminal for $8.7 million, offset by capial asset additions for a berth extension of $10.9 million, and property acquired through the BRAC process of $8.1 million.

Debt Administration

Long-Term Debt: At December 31, 2012, the Port's total long-term debt, including current portion, outstanding was $621.4 million. Of this amount, general obligation bonds outstanding were $198.5 million and revenue bonds outstanding were $422.9 million. At December 31, 2011, the Port's total long-term debt, including current portion, outstanding was $630.1 million. Of this amount, general obligation bonds outstanding were $200.1 million; revenue bonds outstanding were $430.0 million (see Note 5).

At December 31, 2010, the Port's total long-term debt, including current portion, outstanding was $638.6 million. Of this amount, general obligation bonds outstanding were $201.8 million; revenue bonds outstanding were $436.8 million (see Note 5).

The Port utilizes derivative payment agreements to manage interest rate risk. The swap agreements synthetically fix or "lock-in" interest rates on variable revenue bond debt by providing cash flows that are intended to offset the variable-rate bond payments, leaving the Port with the fixed payment identified in each swap agreement. The Port does not hold or issue derivative financial instruments for trading purposes. These instruments are designated as cash-flow hedges on the trade date and are recognized on the statements of net position at their fair value.

In 2010 the Port modified the 2011 and 2012 agreements with the counterparty, eliminating the need to issue new insured debt to match the 2011 $80.0 million and the 2012 $130.0 million swaps. Instead, the Port used existing outstanding variable-rate long-term debt and commercial paper to match the 2011 $80.0 million and 2012 $130.0 million swaps. The Port plans to issue additional commercial paper when the 2013 swap becomes active. The terms of the amended forward-starting payment agreement removes the bond insurance requirement and increases the fixed payment agreement rate by 0.06%. The Port estimates that annual interest expense will increase by $126,000.

Additional information on the Port's long-term debt activity may be found in Note 5 of this report and in the supplementary section "Information for Bondholders."

The Port requests bond ratings prior to issuing debt. Moody's and Standard & Poor's rated the Port's debt as follows:

DESCRIPTION	MOODY'S	STANDARD & POORS
General Obligation (Senior Lien)	Aa3	AA-
Revenue Bonds (Senior Lien)	Aa3	AA-
Revenue Bonds (Subordinate)	A1	A+

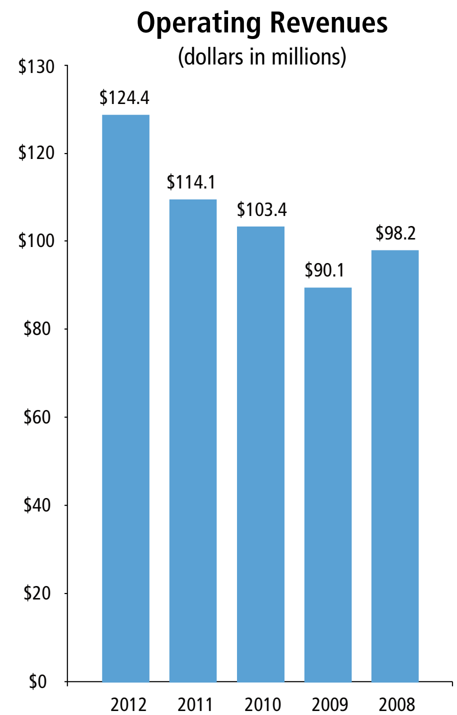
Post-Employment Health Care Benefits Trust Fund: The Post-Employment Health Care Benefits Trust Fund (the Trust) accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. A summarized comparison of the assets, liabilities and net position of the Trust as of December 31, 2012, 2011 and 2010, and changes in net position for the years ended December 31, 2012, 2011 and 2010 (in thousands) are as follows:

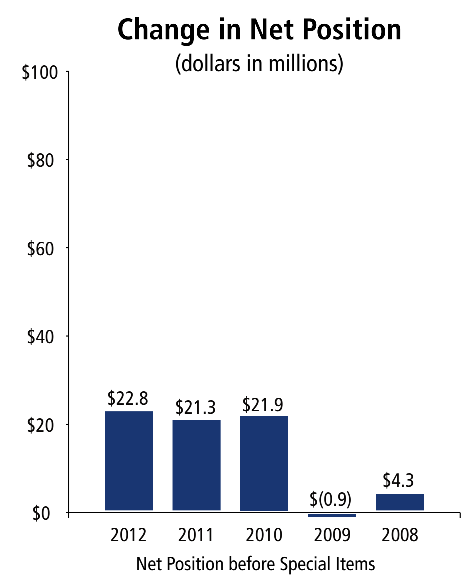
	2012	2011	2010
Total assets	$ 6,859	$ 7,074	$ 7,353
Total liabilities	---	---	---
Total net position	**$6,859**	**$7,074**	**$7,353**
Total additions	$ 100	$ 175	$ 248
Total deductions	(315)	(454)	(464)
Decrease in net position	**(215)**	**(279)**	**(216)**
Net position — beginning of year	7,074	7,353	7,569
Net position — end of year	**$6,859**	**$7,074**	**$7,353**

Requests for Information

The Port of Tacoma designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional information please visit our website at www.portoftacoma.com or contact: Chief Financial Officer, P.O. Box 1837, 1 Sitcum Way, Tacoma, Washington 98401-1837, Telephone 253.383.5841, Fax 253.597.7573.

2012 Overview





Source: Port of Tacoma

Enterprise Fund Statements of Net Position

December 31, 2012 and 2011 (dollars in thousands)

ASSETS

	2012	2011 (as restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 5,222	$ 4,057
Investments, at fair value	189,436	130,268
Restricted investments, at fair value	---	6,776
Trade accounts receivable, net of allowance for doubtful accounts ($458 and $465, respectively)	9,215	8,692
Grants receivable	1,170	586
Taxes receivable	795	1,690
Prepayments and other current assets	8,225	7,433
Total current assets	**214,063**	**152,726**
NON-CURRENT ASSETS		
BOND RESERVES, FAIR VALUE	**17,411**	**16,788**
CAPITAL ASSETS		
Land	518,611	513,863
Buildings	105,365	119,017
Improvements	626,052	601,496
Machinery and equipment	99,619	107,357
Construction in process	33,941	53,434
Total cost	**1,383,588**	**1,395,167**
Less accumulated depreciation	418,927	416,189
Net property and equipment	**964,661**	**978,978**
OTHER ASSETS		
Total other assets	**$ 28,672**	**$ 29,447**
Total non-current assets	**1,010,744**	**1,025,213**
Total assets	**$1,224,807**	**$1,177,939**
DEFERRED OUTFLOWS OF RESOURCES		
Forward-starting payment agreement deferred outflows	$ 94,915	$ 95,428
Advance refunding deferred outflows	3,077	3,597
Total deferred outflows of resources	**$ 97,992**	**$ 99,025**

LIABILITIES AND NET POSITION

	2012	2011 (as restated)
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 8,236	$ 8,671
Payroll and taxes payable	5,231	5,024
Accrued interest	2,284	2,887
Commercial paper	64,500	27,000
Current portion of long-term debt	9,225	8,810
Total current liabilities	**89,476**	**52,392**
NON-CURRENT LIABILITIES		
LONG-TERM DEBT		
General obligation bonds	196,660	198,445
Revenue bonds	415,465	422,905
Total long-term debt	**612,125**	**621,350**
Net bond premium	9,734	10,177
Net long-term debt	**621,859**	**631,527**
OTHER LONG-TERM LIABILITIES		
Forward-starting payment agreement deferred outflows	94,915	95,428
Other	16,791	20,639
Total other long-term liabilities	**111,706**	**116,067**
Total non-current liabilities	**733,565**	**747,594**
Total liabilities	**$823,041**	**$799,986**
NET POSITION		
Net investment in capital assets	$272,154	$315,238
Restricted — bond reserves	17,411	16,788
Unrestricted	210,193	144,952
Total net position	**$499,758**	**$476,978**

See notes to financial statements.

Enterprise Fund Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2012 and 2011 (dollars in thousands)

	2012	2011 (as restated)
OPERATING REVENUES		
Property rentals	$ 93,876	$ 88,172
Terminal services	30,501	25,923
Total operating revenues	**124,377**	**114,095**
OPERATING EXPENSES		
Operations	30,361	26,084
Maintenance	16,013	13,137
Administration	13,655	13,812
Security	3,734	3,782
Environmental	2,100	2,783
Total before depreciation	**65,863**	**59,598**
Depreciation	30,283	30,229
Total operating expenses	**96,146**	**89,827**
Operating income	**28,231**	**24,268**
NON-OPERATING REVENUES (EXPENSES)		
Ad valorem tax revenues	13,672	14,592
Interest on general obligation bonds	(9,566)	(9,661)
Net ad valorem tax revenues	**4,106**	**4,931**
Interest income	3,153	2,733
Net increase in the fair value of investments	777	892
Interest expense	(20,117)	(15,810)
Other non-operating expenses, net	(6,935)	(3,878)
Total non-operating expenses, net	**(19,016)**	**(11,132)**
Increase in net assets, before capital contributions	**9,215**	**13,136**
CAPITAL CONTRIBUTIONS	13,565	8,173
Increase in net position	**22,780**	**21,309**
NET POSITION		
Beginning of year as previously reported (2011 only)	476,978	461,093
Adjustment for adoption of GASB 65	---	(5,424)
Beginning of year, restated	**476,978**	**455,669**
End of year	**$499,758**	**$476,978**

See notes to financial statements.

Enterprise Fund Statements of Cash Flows

Years ended December 31, 2012 and 2011 (dollars in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$123,347	$111,826
Cash paid to suppliers for goods and services	(29,088)	(26,355)
Cash paid to longshore labor and employees	(38,224)	(25,828)
Net cash provided by operating activities	**56,035**	**59,643**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash paid for non-operating expense	**(129)**	**(7,939)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Borrowings on commercial paper	965,000	108,000
Repayments on commercial paper	(927,500)	(108,000)
Acquisition and construction of capital assets	(20,786)	(27,108)
Interest paid on general obligation and revenue bonds and other debt	(30,713)	(26,115)
Principal payments on general obligation, revenue bonds and other debt	(8,810)	(8,445)
Cash received from property taxes for general obligation bonds	14,567	13,977
Cash received from federal and state grants	12,982	9,233
Proceeds from sales of property, plant and equipment	---	1,925
Cash paid for deferred commitment	(2,299)	---
Net cash provided by (used in) capital and related financing activities	**2,441**	**(36,533)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(207,211)	(50,982)
Proceeds from sales and maturities of investment securities	148,578	35,421
Interest received on investments	1,451	1,589
Net cash used in investing activities	**(57,182)**	**(13,972)**
Net increase in cash and cash equivalents	**1,165**	**1,199**
CASH AND CASH EQUIVALENTS		
Beginning of year	4,057	2,858
End of year	**$ 5,222**	**$ 4,057**

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	**$28,231**	**$24,268**
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,283	30,229
Increase (decrease) in environmental reserves	(627)	239
Changes in assets and liabilities:		
Increase in accounts receivable	(523)	(2,346)
(Increase) decrease in other deferred assets	(507)	76
Decrease in prepayments	604	7,027
Increase (decrease) in accounts payable and accrued liabilities	(2,730)	1,351
Increase (decrease) in payroll and taxes payable	216	(29)
(Increase) decrease in long-term liabilities	1,088	(1,172)
Total adjustments and changes	**27,804**	**35,375**
Net cash provided by operating activities	**$56,035**	**$59,643**
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Capital asset additions and other purchases financed with accounts payable and deferred liabilities	$ 660	$ 11,037
Increase in fair value of investments	777	802
Impairment of note receivable	2,031	---

See notes to financial statements.

Post Employment Health Care Benefits Trust Fund

December 31, 2012 and 2011 (dollars in thousands)

STATEMENTS OF NET POSITION

	2012	2011
ASSETS		
Cash and cash equivalents	$ 176	$ 529
Investments, at fair value	6,683	6,545
Total investments and total assets	**6,859**	**7,074**
PLAN LIABILITIES	---	---
Net position held in trust for other post retirement benefits and other purposes	**$6,859**	**$7,074**

See notes to financial statements.

Years ended December 31, 2012 and 2011 (dollars in thousands)

STATEMENTS OF CHANGES IN NET POSITION

	2012	2011
ADDITIONS		
Employer contributions	$ ---	$ ---
Net increase in fair value of investments	4	141
Interest	96	34
Total additions	**100**	**175**
DEDUCTIONS		
Benefit payments	298	437
Administrative expenses	17	17
Total deductions	**315**	**454**
Change in net position	**(215)**	**(279)**
NET POSITION HELD IN TRUST FOR OTHER POST RETIREMENT BENEFITS AND OTHER PURPOSES		
Beginning of year	7,074	7,353
End of year	**$6,859**	**$7,074**

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Port of Tacoma (the Port) is a municipal corporation of the State of Washington created in 1918 under provisions of the Revised Code of Washington (RCW) 53.04.010 et seq. The Port has geographic boundaries coextensive with Pierce County, Washington, and is situated on Commencement Bay in Puget Sound.

The Port is independent from Pierce County government and is administered by a five-member Board of Commissioners elected by Pierce County voters. The Commission delegates administrative authority to a Chief Executive Officer and administrative staff to conduct operations of the Port. The County levies and collects taxes on behalf of the Port. Pierce County provides no funding to the Port. Additionally, Pierce County does not hold title to any of the Port's assets, nor does it have any right to the Port's surpluses.

The Port reports the following funds: the Enterprise Fund accounts for all activities and operations of the Port except for the activities included with the Post-Employment Health Care Benefits Trust Fund.

Nature of Business

The Enterprise Fund is used to account for the general operations of the Port as more fully described below.

The Port is authorized by Washington law to provide and charge rentals, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic handling facilities, for waterborne commerce. The Port may also provide freight and passenger terminals and transfer and storage facilities for other modes of transportation, including air, rail and motor vehicles. The Port may acquire and improve lands for sale or lease for industrial or commercial purposes and may create industrial development districts.

The Post-Employment Health Care Benefits Trust Fund accounts for the assets of the employee benefit plan held by the Port in its trustee capacity (see Note 9).

Basis of Accounting and Presentation

The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units and the Port is accounted for as a proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port has chosen to follow accounting standards applicable to private sector entities when those standards do not conflict with applicable GASB standards. The Port is accounted for on a flow of economic resources measurement focus.

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09, Revised Code of Washington. The Port also follows the Uniform System of Accounts for Port Districts in the State of Washington.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities, at the date of the financial statements. Significant estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the Port include depreciation and environmental liabilities. Actual results could differ from those estimates.

Significant Risks and Uncertainties

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and demand deposits. The Port maintains its cash in bank deposit accounts, which are covered by the Public Deposit Protection Commission of the State of Washington.

Trade Accounts Receivable

Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts was $458,000 at December 31, 2012, and $465,000 at December 31, 2011.

Investments

Investments, unrestricted and restricted, are stated at fair value, based on quoted market prices, plus accrued interest. The Port also has investments in the State Local Government Investment Pool (LGIP). The LGIP is similar to a money market fund recognized by the Securities and Exchange Commission. The investments are limited to high-quality obligations with limited maximum and average maturities. These investments are valued at amortized cost. Interest income on investments is recognized in non-operating revenues as earned. Changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The Port's general policy is to not hold more than 20% of its holdings in any one investment.

Restricted Investments — Bond Reserves

Restricted investments — bond reserves are set aside as restricted assets, for bond reserves and unspent bond proceeds, if any, and are not available for current expenses when constraints placed on their use are legally enforceable due either to: 1) externally imposed requirements by creditors; 2) laws or regulations of other governments; 3) constitutional provisions or enabling legislation. Restricted investments — bond reserves totaled $17,411 and $16,788 at December 31, 2012 and 2011, respectively. There were no unspent bond proceeds at December 31, 2012 and 2011.

Prepayments and Other Current Assets

Maintenance supply inventories of $4,904,000 and $4,287,000 at December 31, 2012 and 2011, respectively, are included in prepayments and other current assets and are valued at net realizable value, which approximates cost using the weighted-average method.

Capital Assets and Depreciation

Capital assets are recorded at cost. Donated assets are recorded at fair market value on the date donated.

The Port's policy is to capitalize all asset additions greater than $10,000 and with an estimated life of more than three years. Depreciation is computed on the straight-line method. Amortization expense on assets acquired under capital lease obligations is included with depreciation expense. The following lives are used:

Buildings and improvements	20-75 years
Machinery and equipment	5-20 years

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Annually, a review is completed and costs relating to projects ultimately constructed are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

Capitalized Interest

The Port follows the policy of capitalizing interest as a component of the cost of capital assets constructed for projects greater than $300,000 that are not funded by grant revenues. Interest incurred on funds used during construction, less interest earned on related interest-bearing investments is capitalized as part of the cost of construction. This process is intended to remove the cost of financing construction activity from the statements of revenues, expenses and changes in net position and to treat such cost in the same manner as construction labor and material costs by taking the monthly average of construction in progress balance times the average interest rate of the outstanding long-term borrowing.

During 2012 total interest incurred, excluding interest on general obligation bonds was $20,282,000, of which $20,117,000 was charged to non-operating expenses and $165,000 was capitalized. During 2011 total interest incurred, excluding interest on general obligation bonds was $16,888,000, of which $15,810,000 was charged to non-operating expenses and $1,078,000 was capitalized.

Net position

Net position consists of net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflow of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debts should be included in this component of net position. This calculation excludes unspent debt proceeds, if any.

Restricted net position represents amounts that are appropriated or are legally segregated for a specific purpose. The Port's net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Net investment in capital assets (in thousands), consists of the following at December 31:

	2012	2011
Net investment in capital assets	$964,661	$978,978
Bond proceeds restricted for construction	---	---
Less:		
Premium costs	6,657	6,580
Long-term debt, including current portion	621,350	630,160
Commercial paper	64,500	27,000
Invested in capital assets, net of related debt, end of year	**$272,154**	**$315,238**

The restricted component of net position was $17,411,000 and $16,788,000 at December 31, 2012 and 2011, respectively, and consisted primarily of bond reserves, as required per certain bond agreements.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Retentions Payable

The Port enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Port. The Port's policy is to pay the retention due only after completion and acceptance have occurred.

Federal and State Grants

The Port may receive federal and state grants as reimbursement for construction of facilities and other capital projects. These grants are included in capital contributions on the accompanying statements of revenues, expenses and changes in net position.

Commercial Paper and Current Portion of Long-Term Debt

Commercial paper and current portion of long-term debt include borrowings with original maturities of less than one year and the portion of long-term debt payable within 12 months. During 2012 the Port entered into additional commercial paper agreements totaling $64,500 at December 31, 2012.

Forward-starting Payment Agreements

The Port accounts for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) on the statements of net position at fair value. The payment instruments were designated as highly effective cash flow hedges at December 31, 2012 and 2011 (see Note 5).

Refunds of Debt

Proceeds from bond defeasance are deposited in an irrevocable trust, with an escrow agent to service the debt on the refunded bonds. Accordingly, the defeased bonds are not recorded on the Port's financial statements. The difference between the reacquisition price and the carrying amount of defeased debt is amortized over the life of the new debt or old debt, whichever is shorter (see Note 5).

Employee Benefits

TThe Port accrues unpaid vacation and sick leave benefit amounts as earned and payable upon termination. These benefits are accrued at current rates of compensation. Accrued vacation and sick leave included in payroll and taxes payable amounted to $1,329,000 and $1,070,000, respectively, at December 31, 2012, and $1,297,000 and $1,076,000, respectively, at December 31, 2011. Vacation and sick leave paid in 2012 was $1,214,000 and $573,000, respectively, and $1,246,000 and $578,000, respectively in 2011. The estimated total amount of vacation and sick leave expected to be paid in 2013 is $1,250,000 and $590,000, respectively.

The Port also provides post-employment health care benefits for retired employees. These benefits cover retired employees ages 60 to 69. The Port also has a trust for the post-employment defined benefit plan (see Note 10).

The Port also participates in the Washington Department of Retirement Systems (the Plan), under cost-sharing multiple-employer defined benefit public employee retirement plans. This plan covers substantially all of the Port's full-time and qualifying part-time employees. The Port's contribution rates are determined by the Plan each year and are based on covered payroll of the qualifying participants (see Note 8).

Environmental Remediation Costs

The Port environmental remediation policy requires accrual of pollution remediation obligation amounts when:

(a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public; permit violation; Port named as party responsible for sharing costs; Port named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port's pollution remediation obligation. Costs incurred for pollution remediation obligations are typically recorded as non-operating environmental expenses unless the expenditures relate to the Port's principal ongoing operations, in which case they are recorded as operating expenses. Costs incurred for pollution remediation obligations can be capitalized if they meet specific criteria. Capitalization criteria include: preparation of property in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant and equipment that have a future alternative use not associated with pollution remediation efforts.

Operating and Non-Operating Revenues and Expenses

Terminal services and property rental revenues are charges for use of the Port's facilities and are reported as operating revenue. Ad valorem tax levy revenues and other revenues generated from non-operating sources are classified as non-operating.

Operating expenses are costs primarily related to the terminal services and property rental activities. Interest expense and other expenses incurred not related to the operations of the Port's terminal and property rental activities are classified as non-operating.

Recent Accounting Pronouncements

In March 2012, GASB issued *Technical Corrections—2012*, amendments of previously issued guidance. The guidance is effective for years beginning after December 15, 2012. The Port elected early adoption of this guidance in the current year, with no impact on the financial position and results of operations.

In March 2012, GASB issued Items Previously Reported as *Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The guidance is effective for years beginning after December 15, 2012. The Port elected early adoption of this guidance in the current year by changing the classification of certain assets and liabilities on the accompanying statements of net position. In addition, this standard required debt issuance costs to be expensed as incurred, resulting in the restatement of the beginning balance of net position in 2011 by a decrease of $5,424,000. The results of operations for 2011 were increased by $233,000 as a result of the adoption of this standard.

In June 2011, GASB issued *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The provisions of the guidance will change where the deferred outflows and deferred inflows are presented on the statements of net position. The guidance is effective for years beginning after December 15, 2011. The Port adopted this guidance in the current year, with no material impact on the financial position and results of operations. The required disclosures are presented on the statements of net position.

In June 2011, GASB issued *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this statement is to clarify whether an effective hedging transaction continues after the replacement of a swap counterparty or a swap counterparty's credit provider. The guidance is effective for years beginning after December 15, 2011. The Port adopted this guidance in 2011, with no impact to the financial statements and related disclosures.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current presentation. These reclassifications have no material effect on previously reported changes in net position.

NOTE 2 — DEPOSITS AND INVESTMENTS

Discretionary Deposits

The Port's cash and cash equivalents of $5.2 million and $4.1 million as of December 31, 2012 and 2011, respectively, were deposited in qualified depositories as required by state statute. Deposits in excess of federal depository insurance coverage are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority under chapter 39.58 RCW. Currently, all public depositories with the state fully collateralize uninsured public deposits at 100%.

Investments

State of Washington statutes authorize the Port to invest in direct obligations of the U.S. Government, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and certain municipal bonds. These investments must be placed with or through qualified public depositories of the State of Washington.

Risks

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Port's investment guideline is to maximize investment return while preserving liquidity. To the extent possible, the Port will attempt to match its investments with anticipated cash flow requirements using the specific-identification method.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool, as defined by the Government Accounting Standards Board.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. To minimize this risk, the Port's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping bank.

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Port investment portfolio as of December 31, 2012 and 2011 (dollars in thousands):

2012		Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-3	More than 3	Percentage of Total Portfolio
Certificate of Deposit	$ 325	$ 325	$ ---	$ ---	0.2%
Federal Farm Credit Banks	20,404	2,001	7,771	10,632	9.9
Federal Home Loan Bank	37,480	3,547	18,429	15,504	18.1
Federal Home Loan Mortgage Corporation	42,644	5,018	14,103	23,523	20.6
Federal National Mortgage Association	53,390	---	16,085	37,305	25.8
Municipal Bonds	20,471	---	2,251	18,220	9.9
State Local Investment Pool	24,515	24,515	---	---	11.8
United States Treasury Bonds	7,618	---	---	7,618	3.7
Total investments	**$206,847**	**$35,406**	**$58,639**	**$112,802**	**100.0%**
Percentage of total portfolio		**17.1%**	**28.4%**	**54.5%**	**100.0%**

2011		Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-3	More than 3	Percentage of Total Portfolio
Certificate of Deposit	$ 325	$ 325	$ ---	$ ---	0.2%
Federal Farm Credit Banks	9,456	3,512	2,133	3,811	6.4
Federal Home Loan Bank	19,913	12,138	4,142	3,633	13.6
Federal Home Loan Mortgage Corporation	6,531	---	5,007	1,524	4.5
Federal National Mortgage Association	14,594	8,059	3,010	3,525	9.9
Municipal Bonds	12,050	1,021	1,126	9,903	8.2
State Local Investment Pool	76,775	76,775	---	---	52.2
United States Treasury Bonds	7,412	---	---	7,412	5.0
Total investments	**$147,056**	**$101,830**	**$15,418**	**$29,808**	**100.0%**
Percentage of total portfolio		**69.2%**	**10.5%**	**20.3%**	**100.0%**

The table below identifies the credit risk of the Port's investment portfolio as of December 31, 2012 (dollars in thousands).

	Moody's Equivalent Credit Ratings						
Investment Type	Fair Value	A1	Aa3	Aa2	Aa1	Aaa	2a7 Pool*
Certificate of Deposit	$ 325	$ ---	$ ---	$ ---	$ ---	$ ---	$ 325
Federal Farm Credit Banks	20,404	---	---	---	---	20,404	---
Federal Home Loan Bank	37,480	---	---	---	---	37,480	---
Federal Home Loan Mortgage Corporation	42,644	---	---	---	---	42,644	---
Federal National Mortgage Association	53,390	---	---	---	---	53,390	---
Municipal Bonds	20,471	3,738	5,468	7,977	2,168	1,119	---
State Local Investment Pool	24,515	---	---	---	---	---	24,515
United States Treasury Bonds	7,618	---	---	---	---	7,618	---
Total	**$206,847**	**$3,738**	**$5,468**	**$7,977**	**$2,168**	**$162,656**	**$24,840**

* Investments in Washington State Local Investment Pool. The fair value of the investments is the same as the value of the pool shares.

NOTE 3 — CAPITAL ASSETS

The following activity took place in capital assets during 2012 and 2011 (dollars in thousands):

2012	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Land	$ 513,863	$ ---	$ 3,645	$ 1,103	$ 518,611
Construction in process	53,434	20,952	(37,385)	(3,060)	33,941
Total capital assets not being depreciated	**567,297**	**20,952**	**(33,740)**	**(1,957)**	**552,552**
Capital assets being depreciated:					
Buildings	119,017	---	912	(14,564)	105,365
Improvements	601,496	---	30,580	(6,024)	626,052
Machinery and equipment	107,357	---	2,248	(9,986)	99,619
Total capital assets being depreciated	**827,870**	**---**	**33,740**	**(30,574)**	**831,036**
Total capital assets	**1,395,167**	**20,952**	**---**	**(32,531)**	**1,383,588**
Less accumulated depreciation:					
Buildings	(75,704)	(3,720)	---	13,797	(65,627)
Improvements	(264,442)	(20,576)	---	2,764	(282,254)
Machinery and equipment	(76,043)	(5,987)	---	10,984	(71,046)
Total accumulated depreciation	**(416,189)**	**(30,283)**	**---**	**27,545**	**(418,927)**
Net, capital assets being depreciated	**411,681**	**(30,283)**	**33,740**	**(3,029)**	**412,109**
Net, capital assets	**$ 978,978**	**($ 9,331)**	**$ ---**	**($ 4,986)**	**$ 964,661**

2011	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Land	$ 487,415	$ 204	$27,220	($ 976)	$ 513,863
Construction in process	91,885	34,903	(57,463)	(15,891)	53,434
Total capital assets not being depreciated	**579,300**	**35,107**	**(30,243)**	**(16,867)**	**567,297**
Capital assets being depreciated:					
Buildings	116,337	---	2,761	(81)	119,017
Improvements	584,813	---	26,103	(9,420)	601,496
Machinery and equipment	106,195	49	1,379	(266)	107,357
Total capital assets being depreciated	**807,345**	**49**	**30,243**	**(9,767)**	**827,870**
Total capital assets	**1,386,645**	**35,156**	**---**	**(26,634)**	**1,395,167**
Less accumulated depreciation:					
Buildings	(71,977)	(3,765)	---	38	(75,704)
Improvements	(243,605)	(20,887)	---	50	(264,442)
Machinery and equipment	(70,656)	(5,577)	---	190	(76,043)
Total accumulated depreciation	**(386,238)**	**(30,229)**	**---**	**278**	**(416,189)**
Net, capital assets being depreciated	**421,107**	**(30,180)**	**30,243**	**(9,489)**	**411,681**
Net, capital assets	**$1,000,407**	**$ 4,927**	**$ ---**	**($26,356)**	**$ 978,978**

NOTE 4 — COMMERCIAL PAPER

The Port is authorized to use Subordinate Lien Revenue Notes (commercial paper) in an amount not to exceed $100 million. Prior to 2012 the Port issued commercial paper to provide interim financing for capital asset projects. The draws are secured by a bank letter of credit with a 5-year term that was set to expire in December 2012. In October 2012, this letter of credit was extended to April 15, 2013. Subsequent to year end, this letter of credit was extended to April 15, 2014.

In 2012 the Port's outstanding commercial paper is being used as a substitute for issuing new variable-rate long-term debt to match the portion of the swaps in excess of the Port's long-term variable-rate bonds.

The term of the commercial paper ranges from 1 to 270 days and the interest rate on the amount outstanding at December 31, 2012, was 0.30%. At December 31, 2011, the interest rate on the amount outstanding was 0.27%. commercial paper advances outstanding totaled $64.5 million and $27.0 million at December 31, 2012 and 2011, respectively.

Commercial paper activity during 2012 and 2011 is as follows (dollars in thousands).

Beginning balance, January 1, 2011	$ 27,000
Advances	108,000
Repayments	(108,000)
Ending December 31, 2011	**27,000**
Advances	965,000
Repayments	(927,500)
Ending December 31, 2012	**$ 64,500**

NOTE 5 — LONG-TERM DEBT

Long-term debt activity during 2012 and 2011 consists of the following (dollars in thousands):

2012

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2011	Issuance	Repayments	December 31, 2012
GENERAL OBLIGATION BONDS							
08/05/03	5.00%	2013	2020	$ 7,550	$ ---	$ ---	$ 7,550
12/20/06	4.00-5.50%	2016	2033	61,315	---	(1,695)	59,620
01/17/08 A	5.00%	2018	2038	109,535	---	---	109,535
01/17/08 B	4.75-4.875%	2018	2038	21,740	---	---	21,740
				200,140	**---**	**(1,695)**	**198,445**
Less current portion				1,695			1,785
Total long-term general obligation bonds, net of current portion				**$198,445**			**$196,660**
REVENUE BONDS							
04/21/04 A	5.25%	2014	2021	$ 8,505	$ ---	$ ---	$ 8,505
04/21/04 B	3.30-5.125%	2014	2034	58,735	---	(790)	57,945
08/30/05	5.00%	2015	2035	75,165	---	(1,740)	73,425
12/20/06	4.00-4.45%	2016	2034	45,750	---	(130)	45,620
03/07/08	Variable Rate	*	2036	108,865	---	(4,455)	104,410
07/15/09**	Variable Rate	*	2044	133,000	---	---	133,000
				430,020	**---**	**(7,115)**	**422,905**
Less current portion				7,115			7,440
Total long-term revenue bonds, net of current portion				**$422,905**			**$415,465**

2011

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2010	Issuance	Repayments	December 31, 2011
GENERAL OBLIGATION BONDS							
08/05/03	5.00%	2013	2020	$ 7,550	$ ---	$ ---	$ 7,550
12/20/06	4.00-5.50%	2016	2033	62,935	---	(1,620)	61,315
01/17/08 A	5.00%	2018	2038	109,535	---	---	109,535
01/17/08 B	4.75-4.875%	2018	2038	21,740	---	---	21,740
				201,760	**---**	**(1,620)**	**200,140**
Less current portion				1,620			1,695
Total long-term general obligation bonds, net of current portion				**$200,140**			**$198,445**
REVENUE BONDS							
04/21/04 A	5.25%	2014	2021	$ 8,505	$ ---	$ ---	$ 8,505
04/21/04 B	3.30-5.125%	2014	2034	59,495	---	(760)	58,735
08/30/05	5.00%	2015	2035	76,840	---	(1,675)	75,165
12/20/06	4.00-4.45%	2016	2034	45,875	---	(125)	45,750
03/07/08	Variable Rate	*	2036	113,130	---	(4,265)	108,865
07/15/09**	Variable Rate	*	2044	133,000	---	---	133,000
				436,845	**---**	**(6,825)**	**430,020**
Less current portion				6,825			7,115
Total long-term revenue bonds net of current portion				**$430,020**			**$422,905**

* Currently callable by the Port but intent is to pay off in accordance with stated maturity dates; therefore, not shown as a current liability.

** This bond issue was originally issued as 2008B and during 2009 the bonds were reissued to secure a better rate. The new bond issue is still referred to as 2008B in all official documents.

General Obligation Bonds

The Port uses ad valorem tax revenues to pay the general obligation bond principal and the related interest. Ad valorem tax revenues may not be used to pay revenue bond debt.

Revenue Bonds

The revenue bonds are secured by a pledge of the Port's gross operating revenues. Revenue bond proceeds finance acquisition, expansion, improvement and equipping Port terminal and industrial development facilities. The Port has pledged a portion of future operating revenues to repay $673.8 million in bond principal and interest through 2044. For the current year, revenue bond principal and interest paid and total operating revenues were $24.2 million and $124.4 million, respectively. The revenue bonds contain coverage requirements related to maintaining adequate net revenues to support debt service.

Interest Rate Payment Agreements (Swaps)

The Port entered into five swaps so that it may mitigate interest rate risk associated with the Port's variable-rate debt. The swaps synthetically fix or "lock-in" interest rates on variable revenue bond debt by requiring the Port to pay a fixed interest rate on the nominal value of the swap and receive variable interest rate cash flows that are intended to offset the variable-rate bond payments, leaving the Port with the fixed payments identified in each swap agreement.

In July 2012 and 2011, the $130.0 million and $80.0 million forward-starting payment agreement became the Port's fourth and third active swap. The last swap for $20.0 million will become active in July 2013. As required by state law, outstanding variable-rate debt must be equal to or greater than the amount of outstanding forward-starting payment agreements. In 2010 the Port modified the 2011 and 2012 swap agreements with the counterparty, eliminating the need to issue new insured debt to match the related swaps. Instead, the Port used existing outstanding variable-rate long-term debt and commercial paper to match the 2011 $80.0 million and 2012 $130.0 million swaps. The Port plans to issue additional commercial paper when the 2013 swap becomes active.

The Port's existing swap contracts and the outstanding notional amounts at December 31, 2012 are detailed as follows. No cash was paid from the Port to the counterparty when the swaps were created (dollars in thousands).

SWAP Reference	Type	Notional Amount	Outstanding Notional Amount	Options	Contract Start Date	Effective Date	Maturity Date	Terms
1	Pay-fixed interest rate swap	$ 70,000	$ 64,054	(1)	8/3/05	8/3/06	12/1/36	Pay 3.795%, receive 70% of LIBOR (2)
2	Pay-fixed interest rate swap	30,000	27,451	None	9/25/08	9/25/08	12/1/36	Pay 3.320%, receive 70% of LIBOR (2)
3	Pay-fixed interest rate swap	80,000	80,000	None	9/20/07	7/28/11	12/1/40	Pay 4.155%, receive 70% of LIBOR (2)
4	Forward-starting pay-fixed interest rate swap	130,000	130,000	None	9/20/07	7/26/12	12/1/41	Pay 4.200%, receive 70% of LIBOR (2)
5	Forward-starting pay-fixed interest rate swap	20,000	20,000	None	9/20/07	7/25/13	12/1/42	Pay 4.184%, receive 70% of LIBOR (2)
Total		**$330,000**	**$321,505**					

(1) Cancellable - Port may call at par 8/3/2016 (2) One-month London Interbank Offered Rate

As required by state law, the following table reflects the outstanding variable-rate debt that must be equal to or greater than the amount of outstanding forward-starting payment agreements:

Variable-Rate Debt	Outstanding Principal December 31, 2012	Outstanding Principal December 31, 2011
2008	$ 104,410	$ 108,865
2008B	133,000	133,000
Commercial paper	64,500	27,000
Total	**$ 301,910**	**$ 268,865**

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate hedges at December 31, 2012 (dollars in thousands).

	2012 Changes in Fair Value		Fair Value at 12/31/12		Notional
SWAP Reference	Classification	Amount	Classification	Amount	Amount
1	Deferred outflow	$ 286	Debt	($ 7,787)	$ 70,000
2	Deferred outflow	239	Debt	(5,805)	30,000
3	Deferred outflow	1,324	Debt	(27,724)	80,000
4	Deferred outflow	(986)	Debt	(46,827)	130,000
5	Deferred outflow	(350)	Debt	(6,772)	20,000
Total		**($ 513)**		**($94,915)**	**$330,000**

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate hedges at December 31, 2011 (dollars in thousands).

	2011 Changes in Fair Value		Fair Value at 12/31/11		Notional
SWAP Reference	Classification	Amount	Classification	Amount	Amount
1	Deferred outflow	($ 2,122)	Debt	($ 8,073)	$ 70,000
2	Deferred outflow	(3,598)	Debt	(6,044)	30,000
3	Deferred outflow	(15,471)	Debt	(29,048)	80,000
4	Deferred outflow	(27,426)	Debt	(45,841)	130,000
5	Deferred outflow	(4,174)	Debt	(6,422)	20,000
Total		**($52,791)**		**($95,428)**	**$330,000**

NOTE 5 — LONG-TERM DEBT (continued)

Risks

The Port mitigates swap-related risk by following its Payment Agreement Guidelines. These guidelines are published in the Port's Annual Budget document within its Debt Guidelines. The guidelines manage each of the risks below.

Counterparty or Credit Risk

The Port's derivative instruments are held by four separate counterparties. By agreement, the Port requires posting of collateral when the counterparty owes to the Port on the swap termination value (market value). The credit ratings for each of the counterparties are as follows (dollars in thousands):

SWAP Reference	Notional Amount	Bank Counterparty	Credit Worthiness * Moody's	S&P	Termination Value
1	$ 70,000	Morgan Stanley	Baa1	A-	($ 7,787)
2	30,000	Goldman Sachs	A2	A-	(5,805)
3	80,000	Dexia	Baa2	BBB	(27,724)
4	130,000	Dexia	Baa2	BBB	(46,827)
5	20,000	Merrill Lynch	Baa2	A-	(6,772)
Total	**$330,000**				**($94,915)**

* The credit worthiness of certain counterparties was downgraded during 2011 from a upper-medium grade and low credit risk to medium grade, with some speculative elements and moderate credit risk. There were no additional downgrades during 2012. Management is monitoring the impact of these changes to the relationships.

Termination Risk

The Port or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If the swap counterparty's credit rating deteriorates below A3/A- (Moody's/Standard & Poors), the Port may terminate the swap at market value; however, the Port may, at its option, continue in the swap. The Port requires the posting of collateral and works with financially strong counterparties to help mitigate this risk.

Basis Risk

The Port pays a daily interest rate to its bondholders and receives 70% of one-month London Interbank Offered Rate (LIBOR) from its swap counterparties. In exchange for the fixed swap rates associated with using the LIBOR index, the Port bears the risk that it could incur a shortfall between the variable rate paid on the bonds and the variable rate received on the swaps.

Rollover Risk

The Port matched the term of its existing swap contracts to the term of the underlying debt so that it minimizes its exposure to rollover risk.

Foreign Currency Risk

The Ports' derivative instruments are denominated in U.S. dollars.

Contingencies

If the Port's credit rating falls below A3/A- (Moody's/Standard & Poors) for the swap with Goldman Sachs or below Baa2/BBB (Moody's/Standard & Poors) for the other swaps, the Port bears the risk that its counterparties may terminate the agreement. The Port is prohibited by RCW 39.96 from posting collateral. The Port's subordinate lien credit rating is A1/A+ (Moody's/Standard & Poors) at December 31, 2012.

Debt Service for Fixed Rate Bonds

The debt service requirements for fixed rate general obligation and revenue bonds outstanding as of December 31, 2012, are as follows (dollars in thousands):

Years	Principal	Interest	Total
2013	$ 4,565	$ 18,485	$ 23,050
2014	7,545	18,257	25,802
2015	7,915	17,879	25,794
2016	8,290	17,490	25,780
2017	8,665	17,104	25,769
2018-2022	68,195	76,996	145,191
2023-2027	86,120	59,048	145,168
2028-2032	108,555	36,649	145,204
2033-2037	75,250	11,064	86,314
2038-2039	8,840	440	9,280
Total	**$383,940**	**$273,412**	**$657,352**

Variable Rate, Derivative Instrument Payments and Hedged Debt

Assuming that the reimbursement agreements and letters of credit agreements are renewed throughout the life of the bonds, the debt service requirements for the 2009 revenue bonds, with a balance of $133 million and 2008B Subordinate-Lien Variable-Rate Revenue Bonds with a balance of $104.4 million, and active swaps with Goldman Sachs, Morgan Stanley and Dexia outstanding as of December 31, 2012, are as follows (dollars in thousands):

Years	Principal Payment	Variable Interest	Interest Rate Swap, Net (1)	Total
2013	$ 4,660	$ 550	$ 11,560	$ 16,770
2014	6,569	539	11,304	18,412
2015	6,837	528	11,037	18,402
2016	7,128	517	10,759	18,404
2017	7,422	504	10,469	18,395
2018-2022	39,257	2,381	47,587	89,226
2023-2027	48,995	2,160	38,401	89,556
2028-2032	26,257	1,892	27,209	55,357
2033-2037	21,785	1,575	13,785	37,145
2038-2042	133,000	1,383	2,346	136,729
Total	**$301,910**	**$12,029**	**$184,457**	**$498,396**

(1) This amount represents the cash that is due to the counterparty based on the terms of the pay-fixed interest rate swap. The amounts for the subsequent years are based on the assumption that interest rate conditions that existed during 2012 will remain the same over the term of the derivative contract.

In 2012 the Port entered into a 3-year agreement with a bank for the direct purchase of the 2008B Subordinate-Lien Variable-Rate Revenue Bonds. When this agreement expires in 2015, the Port can renew it with the existing bank, replace it with similar letters of credit or direct purchases, or convert the debt to fixed long-term debt, among other options. If a new reimbursement agreement is not negotiated prior to the expiration date, the 2008B Subordinate-Lien Variable-Rate Revenue Bonds will continue to be held by the bank, but the Port would be required to pay off the loans over a 5-year amortization schedule (until new agreements are reached). Because these bonds are now held directly by the bank, no remarketing agreements associated with the issues are needed. New remarketing agreements would be required if the Port replaces the direct purchase with letter-of-credit-backed facilities. Fees paid, as defined by the underlying agreements, vary for each bond.

During 2011 the existing Reimbursement Agreements for the 2008 and 2008B Subordinate-Lien Variable-Rate Revenue Bonds expired. The Port renewed the letter of credit with Bank of America for the 2008B bonds for a period of three years. The Port entered into a 3-year agreement with a bank for a direct purchase of the 2008 Subordinate-Lien Variable-Rate Revenue Bonds. When this agreement expires in 2014, the Port can renew it with the existing bank, replace it with similar letters of credit, or direct purchases, or convert the debt to fixed long-term debt, among other options. If new reimbursement agreements are not able to be reached in 2014, the 2008 and 2008B bonds will continue to be held by the banks, but the Port would be required to pay off the loans over a 5-year amortization schedule (until new agreements are reached). Each of the variable-rate bond issues also have remarketing agreements associated with the issue. The agreements allow for the remarketing of the bonds as deemed necessary. The term of the agreements continue until the bonds are converted to long-term bonds or if the agreement is canceled by the Port. Fees paid, as defined by the underlying agreements, vary for each bond.

General Obligation Bonds

Revised Code of Washington (RCW) Chapter 53.36 provides that non-voted general obligation bond debt cannot be incurred in excess of 0.25% of the assessed value of the taxable property in the Port district. At December 31, 2012, the assessed value of the taxable property was $69,124,566,000, which will serve as the basis for the 2013 tax levy. The Port is in compliance with this limitation.

RCW Chapter 53.36 also provides that additional general obligation bond debt can be incurred upon approval by the voters of the Port district.

The paying agent for bonded debt is:

The Bank of New York
Fiscal Agencies - 7 East
101 Barclay Street
New York, NY 10286

NOTE 6 — RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; damage to, theft of and destruction of assets or cargo; natural disasters; and employee injuries. To limit its exposure, the Port purchases a variety of insurance policies. For general liability, the Port purchases $151 million in coverage, subject to a $500,000 self-insured retention. All risk property insurance is purchased on a replacement value basis for most properties, subject to a limit of $500 million and a per occurrence deductible of $150,000. For earthquake/flood and business interruption losses, sublimits of $75 million and $100 million apply, respectively. Insurance coverage for earthquake and flood damage is subject to a deductible defined as 5 percent of the value of the damaged property, with a minimum of $100,000.

With the exception of losses which may arise from employee injuries, earthquakes and/or floods, no deductible exceeds $500,000. The self-insured retention for workers' compensation coverage is $1,000,000.

Insurance coverage for the past three years has been sufficient to cover all claim settlements.

The Port is self-insured for its regular medical coverage. The liability for unpaid medical claims, totaling $1,269,000 at December 31, 2012, is included in payroll and taxes payable on the accompanying statements of net assets and is expected to be paid in 2013. Liability for unpaid claims at December 31, 2011, was $1,224,000. Excess loss coverage has been purchased through an outside provider to limit individual losses to $110,000. Total expense charged to this plan during 2012 and 2011 was $4,372,000 and $4,171,000, respectively.

The Port maintains a self-insurance program for workers' compensation. The estimated liability for workers' compensation is included in payroll and taxes payable on the accompanying statements of net assets. At December 31, 2012, the estimated self-insurance liability for workers' compensation was $402,000 and this amount is expected to be paid in 2013. At December 31, 2011, the estimated self-insurance liability for workers' compensation was $304,000. The liability for unpaid claims represents the estimated future indemnity, medical, rehabilitation and legal costs for all open claims.

Workers' compensation claim activity for December 31, 2012 and 2011, is as follows (dollars in thousands):

	2012	2011
Claims liability, beginning of year	$304	$330
Claims incurred during the year	525	195
Changes in estimate for prior year claims	230	171
Payments on claims	(657)	(392)
Claims liability, end of year	**$402**	**$304**

At December 31, 2012 and 2011, cash reserves for workers' compensation were $325,000 and are included in restricted investments on the statements of net assets. There was no significant liability for unemployment.

NOTE 7 — LEASE COMMITMENTS

The Port leases land, office space and other equipment under operating leases that expire through 2037. Minimum future lease payments under noncancellable operating leases are as follows (dollars in thousands):

Years	
2013	$ 560
2014	552
2015	374
2016	17
2017	17
Thereafter	338
Total minimum payments required	**$1,858**

Total rent expense for the years ended December 31, 2012 and 2011, was $768,000 and $778,000, respectively.

The Port, as a lessor, leases land and facilities under terms of 1 to 50 years. In addition, some properties are rented on a month-to-month basis. The Port currently has over 60 noncancellable lease arrangements ranging in monthly payments between $1 and $1,000. Minimum future rents receivable under noncancellable operating leases and subleases are as follows (dollars in thousands):

Years	
2013	$ 60,446
2014	58,325
2015	51,079
2016	44,997
2017	42,342
Thereafter	357,506
Total minimum future rentals receivable	**$614,695**

Assets held for rental and leasing purposes as of December 31 are as follows (dollars in thousands):

	2012	2011
Land	$ 484,701	$ 486,608
Buildings, improvements and equipment, net	327,544	324,679
Total, net of accumulated depreciation	**$812,245**	**$811,287**

NOTE 8 — PENSION PLANS

The Port's full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans.

Historical trend and other information regarding each plan are presented in the Washington State Department of Retirement Systems comprehensive annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
P. O. Box 48380
Olympia, WA 98504-8380

Internet Address: www.drs.wa.gov

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

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

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

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

PERS consists of and is reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of

NOTE 8 — PENSION PLANS (continued)

Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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

PERS Plan 1 members are vested after the completion of 5 years of eligible service. PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with 5 years of service. The monthly benefit is 2% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually. PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before the age of 65.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan. The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Funding Policy

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

The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2012, were:

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

The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2011, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%	7.25%	7.25%**
Employee	6.00%	4.64%	***

* The employer rates include the employer administrative expense fee of 0.16% for 2012 and 2011.

** Plan 3 defined benefit portion only.

*** Rate selected by PERS 3 members, 5% minimum to 15% maximum.

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 are as follows (dollars in thousands):

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3	Total
2012	$38	$1,318	$162	$1,518
2011	34	1,126	130	1,290
2010	30	945	110	1,085

NOTE 9 — POST-EMPLOYMENT HEALTH CARE BENEFITS

The Port provides health care benefits for eligible retired employees through two plans: the Post-Employment Defined Benefit Plan (DB Plan) that was established in 1975 and the Post-Employment Defined Contribution Plan (DC Plan) that was established in 2007.

Post-Employment Defined Contribution Health Care Benefit Plan

Effective May 1, 2007, the Commission approved a Post-Employment Defined Contribution Plan (DC Plan). The DC Plan requires the Port to contribute $203 and $197 per month in 2012 and 2011, respectively, to the VEBA accounts of eligible employees. Employees hired after May 1, 2007, are eligible for the DC plan and are subject to a 5-year vesting period. The Port contributed $425,000 and $437,000 to eligible employee VEBA accounts in 2012 and 2011, respectively.

NOTE 10 — POST EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND

The Port provides major medical coverage for eligible retired employees through the Post-Employment Defined Benefit Plan (DB Plan) that was established in 1975. In 2007 the Port established a DC Plan (see Note 9) and closed the DB Plan to new employees. The existing employees were allowed to make a one-time election to transfer from the DB Plan to the DC Plan. Approximately 77% of employees elected to transfer to the DC Plan. The Port is the sole administrator and fiduciary of the Post-Employment Health Care Benefits Trust Fund.

Summary of Accounting Policies

The financial statements are prepared using the accrual basis of accounting. Medical benefits that are in accordance with the DB Plan are recognized when due and payable. Contributions to the DB Plan are recognized in the period that the contributions are made.

Investment Policy

As of December 31, 2012 and 2011, the Plan's investments were deposited in qualified depositories as required by state statutes. Those statutes authorize the Port to invest in direct obligations of the U.S. Government, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and certain municipal bonds. Investments are valued at fair value.

The DB Plan does not limit the amount invested in any one issuer. At December 31, 2012 and 2011, the DB Plan had the following investments (dollars in thousands):

Investment Type	2012	2011
Money Market Fund	$ 176	$ 529
Fixed Income Securities	6,683	6,545
Total	**$6,859**	**$7,074**

Plan Description

The Plan provides major medical coverage, subject to a deductible, and a maximum benefit limit of $2,000,000 per person. The Port is the fiduciary of this plan and the trust is held by a bank. The DB Plan is a single-employer cost-sharing defined benefit plan. The DB Plan was closed to new employees in 2007. The Port will fund the DB Plan as necessary to enable the DB Plan to pay vested accrued benefits to particpants as they become due and payable.

Retirees and their spouses are eligible for Port-paid, post-employment medical benefits upon attainment of the age of 60 through the age of 69, provided they have completed a minimum of 15 years of service and are eligible to retire under PERS. Employees retiring before the age of 60 are eligible for Port-paid, post-employment medical for up to 10 years, provided they have completed 20 years of service and are eligible to retire under PERS.

The Port's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of the authoritative guidance. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The contribution policy of the plan is established by the commission.

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial present value of accumulated plan benefits is determined by an independent actuary.

As of January 1, 2010, 2011 and 2012, the entry age normal valuation method was used. The actuarial assumptions included a 4% investment rate of return (net of investment expenses), which is a blended rate of the expected long-term investment returns on plan assets. The expected long-term investment return on plan assets is developed by netting the investment earnings at the assumed valuation investment return rate to the prior year valuation asset value, expenses, benefit payments and assets expected from future contributions. The health care cost trend rate assumptions are 9.0% graded uniformly to 5% over 8 years for December 31, 2012 and 2011. The health care cost trend at December 31, 2010: 9.5%, graded to 5% over 9 years. The actuarial value of assets was determined using market value. The actuarial accrued liability is fully funded at December 31, 2012, 2011 and 2010, in an external trust.

Annual Pension Cost

The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's OPEB obligation for the years ended December 31, 2010, 2011 and 2012 (dollars in thousands):

	2010	2011	2012
Annual required contribution	**$415**	**$298**	**$347**
Interest on net OPEB obligation	---	---	---
Annual OPEB expense	**415**	**298**	**347**
Claims paid	(415)	(298)	(347)
End OPEB liability	**$ ---**	**$ ---**	**$ ---**

Employer Contributions

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2010, 2011 and 2012, are as follows (dollars in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed to a Trust Fund	Net OPEB Obligation/ (Asset)
12/31/10	$415	100%	$ ---
12/31/11	298	100	---
12/31/12	347	100	---

Schedule of Funding

The following schedule summarizes the funding progress at December 31, (dollars in thousands):

Plan Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
2010	7,353	5,148	---*	142.8	2,601	---
2011	7,074	4,326	---*	163.5	2,535	---
2012	6,859	4,348	---*	157.8	2,323	---

* There is no unfunded AAL at December 31, 2012, 2011 and 2010, as the value of the plan assets exceeds the AAL.

NOTE 11 — DEFERRED COMPENSATION PLANS

The Port offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Port employees, permits them to defer a portion of their salary until future years. In accordance with GASB authoritative guidance, accounting and reporting for Internal Revenue Code Section 457 deferred compensation plans, employee assets are not reflected in the Port's financial statements.

The Port established a profit sharing plan for nonrepresented employees in accordance with Internal Revenue Code Section 401. The plan provides for an annual contribution to each eligible employee's 401 account based on the Port meeting financial targets. The minimum contribution of $100 or a maximum contribution of 4% of total salaries of eligible employees will be made annually to the 401 accounts. In addition to the employer contribution, eligible employees may defer a portion of their salary until future years. The Port did not contribute to the plan in 2012 and 2011.

Both plans are fully funded and held in outside trusts. The fund is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 12 — PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of the prior May 31. The lien date is January 1. Assessed values are established by the County Assessor at 100% of fair market value. A revaluation of all property is required every six years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the Port by the County Treasurer.

The Port is permitted by law to levy up to 45 cents per $1,000 of assessed valuation for general Port purposes. The rate may be adjusted for either of the following reasons:

(a) Washington State law in Revised Code of Washington (RCW) 84.55 limits the growth of regular property taxes, but it allows additional amounts for new construction. The Port is allowed to raise revenues in excess of the limit if approved by a majority of the voters as provided in RCW 84.55.050.

(b) The Port may voluntarily levy taxes at a lower rate.

Special levies approved by the voters are not subject to the above limitations.

In 2012 the Port's regular tax levy was $0.181 per $1,000 on a total assessed valuation of $75,697,858,000, for a total regular levy amount of $13,728,000. In 2011 the regular tax levy was $0.182 per $1,000 on a total assessed valuation of $81,262,532,000, for a total regular levy of amount of $14,779,000.

NOTE 13 — PORT OPERATIONS BY INDUSTRY

The Port operates principally in two industries: terminal services and property rentals. Terminal services involve marine-oriented services and include dockage, cargo handling, storage, and related activities. Properties rented include facilities and land used primarily for container terminals, industrial activities and storage. Revenues and income from operations for the years ended December 31, 2012 and 2011, and identifiable assets by industry segment are presented below (dollars in thousands):

	2012	2011
OPERATING REVENUES		
Property rentals	$ 92,606	$ 88,172
Terminal services	31,771	25,923
Total operating revenues	**$ 124,377**	**$ 114,095**
INCOME FROM OPERATIONS		
Property rentals	$ 11,184	$ 9,679
Terminal services	38,844	37,562
	50,028	**47,241**
Administration expenses	(13,655)	(13,812)
Depreciation expense allocated to administration	(2,308)	(2,595)
Security expenses	(3,734)	(3,783)
Environmental expenses	(2,100)	(2,783)
Operating income	**28,231**	**24,268**
NON-OPERATING REVENUES (EXPENSES) — NET	(19,016)	(11,365)
Increase in net position before capital contributions	**9,215**	**12,903**
CAPITAL CONTRIBUTIONS	13,565	8,173
Increase in net position	**$ 22,780**	**$ 21,076**
IDENTIFIABLE ASSETS		
Capital assets — net:		
Property rentals	$ 118,954	$ 121,395
Terminal services	804,138	811,287
Current assets:		
Property rentals	8,903	6,951
Terminal services	312	1,741
Total identifiable assets	**932,307**	**941,374**
GENERAL PORT ASSETS — NET	292,500	337,184
Total assets	**$1,224,807**	**$1,278,558**
CAPITAL ASSET ADDITIONS		
Property rentals	$ 18,051	$ 109
Terminal services	2,735	26,999
Total capital asset additions	**$ 20,786**	**$ 27,108**

General Port assets are principally cash, temporary investments, construction in process, Port offices, taxes receivable, and deferred and other assets.

NOTE 14 — COMMITMENTS

The Port has entered into contractual agreements for terminal maintenance, infrastructure improvements, environmental projects and professional services. At December 31, 2012, these commitments are as follows (dollars in thousands):

Project	Remaining Commitments
Terminal projects	$ 5,340
Infrastructure	7,501
Environmental	3,073
Other (including professional services)	2,223
Total commitments	**$18,137**

NOTE 15 — ENVIRONMENTAL LIABILTIES

The Port monitors remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

Future expenditures for environmental remediation obligations using the expected cash flow technique were $10.5 million at December 31, 2012, and $11.0 million at December 31, 2011. This liability is included in other long-term liabilities on the accompanying statements of net position. Recoveries of environmental remediation costs from other parties are recorded as a reduction of the related costs using the expected cash flow technique. The Port's remedial obligations are summarized in the following table (dollars in thousands):

	2012	2011
Remediation/monitoring activities	$ 3,164	$ 3,675
Remediation capitalized	5,439	5,439
Remediation expensed	1,902	1,902
Total	**$10,505**	**$11,016**

The Port's monitoring activities of $3.2 million at December 31, 2012, and $3.7 million at December 31, 2011, are monitoring obligations required by regulatory agencies and estimated monitoring obligations for active remedial activities. The monitoring expenses are presented as operating expense on the statements of revenues, expenses and changes in net position.

The Port acquired property in March 2003 that required remediation for marine terminal development. The terms of the acquisition obligated the Port to remedial action that was approved by federal and state regulators as part of the purchase price. The remaining obligation is estimated at the current value of $3.0 million in 2012 and 2011. The estimated liability does not include future cost recoveries.

The Port transferred land to the Puyallup Tribe of Indians in 1988 under the 1988 Puyallup Land Settlement Agreement. The terms of the agreement obligated the Port to remediate the property in the event of future development. In April 2008, the parties also entered into a land swap agreement for several of the same parcels for the development of marine terminals. As a result of the land swap transaction, $2.4 million of the obligation was capitalized and $1.9 million of the obligation was recorded as environmental remediation expense.

At December 31, 2012, the estimated cost of the environmental remediation projects expected to be capitalized in future periods is approximately $34.3 million.

NOTE 16 — CONTINGENCIES

The Port owns land within the boundaries of the Commencement Bay near the Shore Tideflats Superfund Site, for which a Remedial Investigation and a Feasibility Study have been performed by the U.S. Environmental Protection Agency and the Washington State Department of Ecology, pursuant to the Federal Comprehensive Environmental Response Compensation and Liability Act and the Model Toxics Control Act. Remedial actions are currently underway or complete at all known sites. The Port will continue to have liability exposure until the cleanup is complete.

In 2008 the United States Department of Army, Corps of Engineers issued a notice of violation to the Port claiming that the Port filled and graded certain wetlands without the required Army, Corps of Engineers permits. The United States Environmental Protection Agency (EPA) assumed jurisdiction in 2009 and issued a Request for Information, pursuant to 308(a) of the Clean Water Act, 33 U.S.C. 51318(a), and subsequently filed suit claiming that the Port partially filled sensitive wetland without proper permits. The Port and EPA have agreed to a tentative settlement of $500,000 in cash and approximately $3.1 million towards the development and restoration of 7.56 acres of wetlands. The cash portion of settlement is recorded in "Other non-operating expenses, net" on the statements of net assets. The wetlands habitat development costs will be capitalized when incurred.

The Port is named as a defendant in various other lawsuits incidental to carrying out its function. The Port believes its ultimate liability, if any, will not be material to the financial statements.

NOTE 17 — MAJOR CUSTOMERS

Operating revenues for the year ended December 31, 2012, of $124.4 million included $79.4 million, or 80% of total revenue from ten significant customers of which four of these customers individually accounted for 10% or more of operating revenues and in aggregate 51% of operating revenues. Operating revenues for the year ended December 31, 2011, of $114.1 million included $88.6 million, or 78% of total revenue from ten significant customers of which three of these customers individually accounted for 10% or more of operating revenues and in aggregate 41% of operating revenues. Receivables from those customers totaled $8.3 million or 88% of total trade receivables, and $7.7 million or 79.3% of total trade receivables at December 31, 2012 and 2011, respectively.

NOTE 18 — RELATED-PARTY TRANSACTIONS

The commissioners of the Port, the Chief Executive Officer and the Deputy Executive Officer also serve as officers and directors of other private and public agencies. The Revised Code of Washington, Section 53, authorizes the Port District to cooperate and invest with such agencies including trade centers, economic development and other municipal entities. The Port supports such agencies in its normal course of business.

NOTE 19 — FAIR VALUE MEASUREMENTS

The estimated carrying and fair values of the Port's financial instruments are as follows (dollars in thousands):

	2012		2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 5,222	$ 5,222	$ 4,057	$ 4,057
Investments	206,847	206,847	147,056	147,056
Financial liabilities				
Commercial paper	$ 64,500	$ 64,500	$ 27,000	$ 27,000
Interest rate swaps	94,915	94,915	95,428	95,428
Long-term debt	621,350	562,497	630,160	594,630

The Port has five swaps outstanding so that it may mitigate interest rate risk. The swaps synthetically fix or "lock-in" interest rates on variable revenue bond debt by providing cash flows that are intended to offset the variable-rate bond payments, leaving the Port with the fixed payment identified in each swap agreement. The fair value of the interest rate swap agreement (used for purposes other than trading) is the estimated amounts the Port would pay to terminate the swap agreement at the reporting date, taking into account current interest rates for the swap agreement and the creditworthiness of the swap counterparty and the third-party bond insurer.

The Port adopted FASB authoritative amended guidance on fair values on January 1, 2012. The amended guidance requires additional disclosures for all assets and liabilities that are being measured and reported on a fair value basis. The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Port performs a detailed analysis of the assets and liabilities that are subject to the guidance. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The Port does not have any Level 3 assets or liabilities at December 31, 2012 and 2011.

The table below presents the balances of liabilities measured at fair value by level within the hierarchy at December 31, 2012 and 2011 (dollars in thousands):

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Investments - Enterprise Fund	$70,094	$136,753	$ ---	$206,847
Investments - Post-Employment				
Health Care Benefits Trust Fund	1,661	5,022	---	6,683
Interest rate swaps	---	94,915	---	94,915
	Assets at Fair Value as of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments - Enterprise Fund	$94,480	$52,576	$ ---	$147,056
Investments - Post-Employment				
Health Care Benefits Trust Fund	1,636	4,909	---	6,545
Interest rate swaps	---	95,428	---	95,428

The Port's interest rate swap is a pay-fixed, receive variable based on 70% London Interbank Offered Rate (LIBOR) from its counterparties. LIBOR is observable at commonly quoted intervals for the full term of the swaps and, therefore, is considered a Level 2 item. For an interest rate swap in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset. The guidance states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of the Port's creditworthiness has been factored into the fair value measurement of the interest rate swap in a liability position.

NOTE 20 — NOTES RECEIVABLE

In April 2010, the Port entered into a note receivable in the amount of $16.0 million with an interest rate of 7.0% related to the sale of real property. In August 2011, the payment schedule was amended, resulting in a revised effective interest rate of 7.19%. At December 31, 2012, the note receivable balance totaling $19.2 million was determined to be impaired. Consequently, the Port has followed troubled debt restructure guidance in accordance with Statement of Governmental Accounting Standards Board (GASB) No. 62 and Financial Accounting Standards Board Accounting Standards Codification (ASC) 310-40-35. The result was a write-down of $2.0 million, which is included in non-operating expense in the statements of revenue, expenses and changes in net position for the year ended December 31, 2012. The aggregate new net recorded investment in this receivable at December 31, 2012 is $17.2 million, which is based on the present value of the net future expected cash flows. The net recorded investment in this receivable at December 31, 2011 was $18.7 million and was based on the contractual principal payments due. Interest revenue of $1.3 million and $1.2 million for the years ended December 31, 2012 and 2011, respectively, were recorded in the statements of revenues, expenses and changes in net position.

In accordance with GASB 62, all future payments from the debtor, whether designated as principal or interest, will be applied to the net investment in the receivable and no interest income will be recognized on the receivable in future periods until the net investment is fully recovered, unless contingent amounts receivable as part of the new agreement are realized, then a portion of these contingent amounts may be recognized as interest income as outlined in GASB 62.

NOTE 21 — SUBSEQUENT EVENTS

Events that occurred subsequent to December 31, 2012, have been evaluated by the Port's management through April 29, 2013, which is the date the financial statements were available to be issued.

Independent Auditor's Report

The Board of Commissioners, **Port of Tacoma**, Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund and the Post-Employment Health Care Benefits Trust Fund of **Port of Tacoma** (the Port) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which, collectively, comprise the Port'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Port of Tacoma** as of December 31, 2012 and 2011, and the change in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16-18 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 evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that, collectively, comprise the Port's basic financial statements. The statistical, introductory and information for bondholders sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statistical, introductory and information for bondholders sections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

The statistical, introductory and information for bondholders sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

McGladrey & Pullen, LLP

Tacoma, Washington
April 29, 2013

Information for Bondholders

This information is provided as a convenience to bondholders and other institutions to assist them in reviewing historical financial information

COMPARATIVE SCHEDULE OF NET REVENUES AVAILABLE FOR DEBT SERVICE (dollars in thousands)

	2012	2011	2010	2009	2008
REVENUES					
Total Operating Revenues	**$124,377**	**$114,095**	**$103,350**	**90,140**	**98,189**
Non-operating Revenues (1), (2), (3), (4)	3,256	2,830	2,653	2,952	4,483
Total Revenues Available for Senior Debt Service	**$127,633**	**$116,926**	**$106,003**	**93,092**	**102,671**
EXPENSES					
Total Operating Expenses, excluding depreciation	**65,863**	**59,598**	**56,062**	**48,375**	**52,533**
Non-operating Expenses (5), (6), (7)	34	31	17	16	27
Total Expenses, excluding depreciation	**65,897**	**59,629**	**56,079**	**48,391**	**52,560**
Less Levy Available for Capital Improvement (8)	2,500	3,721	5,097	5,903	6,017
Net Expenses	**63,396**	**55,907**	**50,982**	**42,488**	**46,543**
Net Revenues Available for Senior Debt Service	**64,237**	**61,018**	**55,021**	**50,604**	**56,128**
Debt Service Senior Lien debt	11,774	11,791	11,798	11,819	17,302
DEBT SERVICE COVERAGE (Senior Lien Debt) (9)	**5.46**	**5.17**	**4.66**	**4.28**	**3.24**
Net Revenues Available for Senior Debt Service	**64,237**	**61,018**	**55,021**	**50,604**	**56,128**
Less Subordinate Lien Rate Stabilization (10)	(4,500)	(5,250)	(5,512)	(5,000)	(750)
Less Senior Lien Debt Service	(11,774)	(11,791)	(11,798)	(11,819)	(17,302)
Net Revenues Available for Subordinate Debt Service	**47,963**	**43,977**	**37,711**	**33,785**	**38,076**
Debt Service Subordinate Debt (11) (12)	15,556	11,699	8,490	8,464	8,622
DEBT SERVICE COVERAGE (Subordinate Lien Debt) (9), (11)	**3.08**	**3.76**	**4.44**	**3.99**	**4.42**
Net Revenues Available for Senior Debt Service	**64,237**	**61,018**	**55,021**	**50,604**	**56,128**
Less Subordinate Lien Rate Stabilization	(4,500)	(5,250)	(5,512)	(5,000)	(750)
Net Revenues Available for fully Diluted Debt Service	**59,737**	**55,768**	**49,509**	**45,604**	**55,378**
Debt Service; Senior, Subordinate and lowest lien debt (13)	27,330	23,490	20,289	20,574	26,361
DEBT SERVICE COVERAGE - Fully Diluted (9), (11), (13)	**2.19**	**2.37**	**2.44**	**2.22**	**2.10**
NOTE: Above schedule does not include levies for general obligation bond issues outstanding.					
FOOTNOTES:					
Above schedule does not include levies for general obligation bond issues outstanding.					
(1) Excluded from non-operating revenues is interest earned on investment of:					
General Obligation bonds	$7	$3	$6	$1	$12
Construction funds	---	9	99	276	1,754
(2) Excluded from non-operating revenues is capital contribution	14,257	16,838	17,399	11,940	4,169
(3) Excluded from non-operating revenues is gain (loss) on sale or write down of property	(850)	(8,538)	(1,527)	(7,896)	(200)
(4) Excluded from non-operating revenue is (gain) loss on market value of investments	777	892	534	220	(605)
(5) Excluded from non-operating expenses is cost of bond issue, net of discounts, premiums and other debt costs and election expense	(261)	212	(25)	855	106
(6) Excluded from non-operating expense is interest expense, net of capitalized interest	20,378	16,072	15,905	15,186	16,059
(7) Excluded from non-operating expense are contributions to other agencies and other expenses not attributable to operations	4,822	3,843	5,076	10,334	13,071

(8) Washington Port Districts are authorized by statute to levy $0.45 per $1,000 of actual value of taxable property ad valorem tax upon all taxable property within their jurisdiction for operations, maintenance, capital improvements and general Port purposes

(9) Excluded Special items in 2009 of $22.3 million for suspension of terminal project

(10) Amounts withdrawn from the Rate Stabilization Account shall increase Gross Revenue for the period in which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce Gross Revenue for the period during which they are deposited

(11) The Port is authorized to issue from time to time an aggregate principal amount not to exceed $100,000,000, under the Port's Subordinate Lien Commercial Paper Program. Debt service shown in this table for the commercial paper program is based on the actual interest payments only on the amount outstanding under this program during the period on calculation

(12) Included payment made to credit and liquidity providers

(13) Included the debt service of lowest lien

REVENUE BOND DEBT SERVICE SCHEDULE (dollars in thousands)

	2004 Revenue Bonds			2005 Revenue Bonds			2006 Refunding Revenue Bonds			2008 Refunding Revenue Bonds			2008 Subordinate Revenue Bonds			TOTAL		
Pmt Date	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	820	3,338	4,158	1,820	3,671	5,491	140	1,981	2,121	4,660	4,157	8,817		3,655	3,655	7,440	16,802	24,242
2014	855	3,305	4,160	1,900	3,580	5,480	145	1,976	2,121	4,880	3,945	8,825		3,658	3,658	7,780	16,464	24,244
2015	890	3,268	4,158	1,985	3,485	5,470	150	1,970	2,120	5,105	3,723	8,828		3,658	3,658	8,130	16,104	24,234
2016	930	3,228	4,158	2,075	3,386	5,461	155	1,964	2,119	5,345	3,492	8,837		3,660	3,660	8,505	15,730	24,235
2017	970	3,186	4,156	2,170	3,282	5,452	160	1,958	2,118	5,595	3,245	8,840		3,655	3,655	8,895	15,326	24,221
2018	4,025	3,136	7,161	2,265	3,174	5,439	170	1,951	2,121	2,850	2,991	5,841		3,658	3,658	9,310	14,910	24,220
2019	4,235	2,929	7,164	2,370	3,061	5,431	175	1,944	2,119	2,960	2,883	5,843		3,658	3,658	9,740	14,475	24,215
2020	4,450	2,712	7,162	2,485	2,942	5,427	180	1,937	2,117	3,080	2,772	5,852		3,660	3,660	10,195	14,023	24,218
2021	4,680	2,482	7,162	2,610	2,817	5,427	190	1,930	2,120	3,205	2,653	5,858		3,655	3,655	10,685	13,537	24,222
2022	2,510	2,241	4,751	2,740	2,687	5,427	2,605	1,922	4,527	3,330	2,532	5,862		3,658	3,658	11,185	13,040	24,225
2023	2,635	2,114	4,749	2,880	2,550	5,430	2,720	1,813	4,533	3,465	2,406	5,871		3,658	3,658	11,700	12,541	24,241
2024	2,770	1,981	4,751	3,025	2,406	5,431	2,830	1,697	4,527	3,605	2,276	5,881		3,660	3,660	12,230	12,020	24,250
2025	2,910	1,841	4,751	3,175	2,255	5,430	2,950	1,577	4,527	3,750	2,137	5,887		3,655	3,655	12,785	11,465	24,250
2026	3,060	1,692	4,752	3,335	2,096	5,431	3,080	1,451	4,531	3,900	1,995	5,895		3,658	3,658	13,375	10,892	24,267
2027	3,215	1,536	4,751	3,500	1,930	5,430	3,210	1,321	4,531	4,055	1,847	5,902		3,658	3,658	13,980	10,292	24,272
2028	3,375	1,375	4,750	3,675	1,755	5,430	3,350	1,184	4,534	4,215	1,694	5,909		3,660	3,660	14,615	9,668	24,283
2029	3,545	1,206	4,751	3,860	1,571	5,431	3,490	1,042	4,532	4,385	1,533	5,918		3,655	3,655	15,280	9,007	24,287
2030	3,725	1,029	4,754	4,050	1,378	5,428	3,645	886	4,531	4,560	1,367	5,927		3,658	3,658	15,980	8,318	24,298
2031	3,910	842	4,752	4,255	1,175	5,430	3,805	724	4,529	4,745	1,194	5,939		3,658	3,658	16,715	7,593	24,308
2032	4,105	647	4,752	4,465	963	5,428	3,980	555	4,535	4,935	1,014	5,949		3,660	3,660	17,485	6,839	24,324
2033	4,310	442	4,752	4,690	739	5,429	4,155	378	4,533	5,130	826	5,956		3,655	3,655	18,285	6,040	24,325
2034	4,525	226	4,751	4,925	505	5,430	4,335	193	4,528	5,335	632	5,967		3,658	3,658	19,120	5,214	24,334
2035				5,170	259	5,429				5,550	431	5,981		3,658	3,658	10,720	4,348	15,068
2036										5,770	219	5,989		3,660	3,660	5,770	3,879	9,649
2037														3,655	3,655	---	3,655	3,655
2038														3,658	3,658	---	3,658	3,658
2039														3,658	3,658	---	3,658	3,658
2040														3,660	3,660	---	3,660	3,660
2041														3,655	3,655	---	3,655	3,655
2042														3,658	3,658	---	3,658	3,658
2043														3,658	3,658	---	3,658	3,658
2044													133,000	3,940	136,940	133,000	3,940	136,940
Grand Total	$66,450	$44,756	$111,206	$73,425	$51,667	$125,092	$45,620	$32,354	$77,974	$104,410	$51,964	$156,374	$133,000	$117,320	$250,320	$422,905	$298,061	$720,966

TAX COLLECTION INFORMATION (dollars in thousands)

	Amount of Tax Levy	Tax Collected as of 12/31/12	% Collected
2012	$13,719	$13,321	97.10%
2011	14,797	14,340	96.91%
2010	16,283	16,057	98.61%
2009	16,994	16,884	99.35%
2008	16,509	16,497	99.93%
2007	14,637	14,633	99.97%

PORT TAXING DISTRICT ASSESSED VALUATION

2013	$69,124,565,890
2012	75,697,857,587
2011	81,262,532,281
2010	88,468,117,832
2009	92,604,618,893
2008	89,354,870,537

PROPERTY TAX LEVY AVAILABLE FOR CAPITAL IMPROVEMENTS (dollars in thousands)

	2012	2011	2010	2009	2008
Total Levy	13,719	14,797	16,283	16,933	16,540
Less Designation for G.O. Debt Service	11,275	11,281	11,273	11,092	10,554
Called bonds				---	---
Subtotal	**2,444**	**3,516**	**5,010**	**5,841**	**5,986**
Supplements, Cancellations	56	205	87	62	31
Refunds-Regular	---	---	---	---	---
Subtotal	**56**	**205**	**87**	**62**	**31**
Levy Available for Capital Improvement	**2,500**	**3,721**	**5,097**	**5,903**	**6,017**

CURRENT BOND RATINGS

Rating Agency	Senior Revenue Bonds	Subordinate Revenue Bonds	General Obligation Bonds
Moody's Investor Services	Aa3	A1	Aa3
Standard & Poor's Corporation	AA-	A+	AA-

Subscriptions and information

The 2012 Annual Report was produced by the Port of Tacoma. Subscriptions are free by visiting www.portoftacoma.com/publications. For information about articles in this edition or for permission to reproduce any portion of it, contact the Communications Department.

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CERTIFICATE OF PURCHASER AT PRIVATE SALE

The undersigned hereby represents and warrants that ________________ (the "Bank") has made a complete investigation of the facts and circumstances furnished to us by Port of Tacoma, Washington (the "Port"), relating to its Limited Tax General Obligation Refunding Bond, 2016, dated as of the date of delivery of its purchase price, in the total principal amount of $__________, (the "Bond"), and issued pursuant to a resolution of the Port, adopted on December 17, 2015.

In connection with the purchase of the Bond, the Bank hereby represents and agrees:

1. The Bank has sufficient knowledge and experience in financial and business matters, including the purchase and ownership of municipal bonds and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the Bond.

2. No official statement, prospectus, disclosure document or other comprehensive offering statement containing material information with respect to the Port and/or the Bond are being issued. The Bank has made its own inquiry and analysis with respect to the Port, the Bond and other material factors affecting the credit standing of the Port, the security for the Bond, and the ability of the Port to pay the Bond. The Bank understands that no financial information in connection with this transaction has been reviewed by the Port's counsel, or K&L Gates LLP, bond counsel.

3. The Bank either has been supplied with or has had access to information, including financial statements and other financial information, to which a reasonable investor would attach significance in making investment decisions, and has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the Port and its credit standing and the Bond, so that as a sophisticated investor the Bank has been able to make its decision to purchase the Bond.

4. The Bank acknowledges that the Bond (a) is not being registered under the Securities Act of 1933 and is not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (b) will not be listed on any stock or other securities exchange, (c) will carry no rating from any rating service, and (d) may not be readily marketable. The Bank acknowledges that as the owner of the Bond, it must bear the economic risk of the investment for an indefinite period of time because the Bond has not been registered under the Securities Act of 1933 and, therefore, cannot be sold unless it is subsequently registered under such Act or an exemption from such registration is available.

5. The Bank is able to bear the economic risk of the investment represented by its purchase of the Bond.

6. The Bank is acquiring the Bond for its own account for investment and not with a view to dividing its ownership with others or with a view to, or for resale in connection with, any "distribution" (as that term is used in the Securities Act of 1933 and rules and regulations of the Securities and Exchange Commission thereunder) of all or any portion of the Bond. The Bank has no present intention of selling, negotiating or otherwise disposing of the Bond.

7. The Bank will not assign or offer the Bond for sale in any state of the United States of America without first (a) taking all necessary action to qualify the Bond for offer and sale under the securities or "blue sky" laws of the United States of America or such state, or obtaining the advice of counsel that no such action is necessary because of a registration exemption; (b) complying with the condition of transfer set forth in the Bond; and (c) providing to the Bank thereof, or any participant therein, all material information in its possession necessary to evaluate the risks and merits of the investment represented by the purchase of or participation in the Bond.

8. The Bank acknowledges that the Bond is exempt from the ongoing disclosure requirements of SEC Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

DATED as of this _____ day of _________, 2016.

Very truly yours,

____

By ________________________________

Title ______________________________

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