



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Friday Harbor

For the period January 1, 2019 through December 31, 2019

Published September 3, 2020

Report No. 1026838





**Office of the Washington State Auditor
Pat McCarthy**

September 3, 2020

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

**Report on Financial Statements and Federal Single Audit and
Passenger Facility Charges**

Please find attached our report on the Port of Friday Harbor's financial statements, compliance with federal laws and regulations and compliance with requirements applicable to its passenger facility charge program.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Friday Harbor January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Port of Friday Harbor are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Port.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Port’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Port did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**Port of Friday Harbor
January 1, 2019 through December 31, 2019**

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Friday Harbor, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated August 13, 2020.

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Port's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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

report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

August 13, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Port of Friday Harbor January 1, 2019 through December 31, 2019

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Friday Harbor, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2019. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

August 13, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

**Port of Friday Harbor
January 1, 2019 through December 31, 2019**

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON COMPLIANCE FOR PASSENGER FACILITY CHARGES

We have audited the compliance of the Port of Friday Harbor, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Port's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port's compliance with those requirements.

Opinion on Compliance

In our opinion, the Port of Friday Harbor complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the Port's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

August 13, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Friday Harbor January 1, 2019 through December 31, 2019

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Friday Harbor, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 19.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Friday Harbor, as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Passenger Facility Charges is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. These schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2020 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

August 13, 2020

FINANCIAL SECTION

Port of Friday Harbor January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019

Notes to Required Supplemental Information – Pension – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019

Schedule of Passenger Facility Charges – 2019

Notes to the Schedule of Passenger Facility Charges – 2019

PORT OF FRIDAY HARBOR
Management's Discussion and Analysis
December 31, 2019

The discussion and analysis of the Port of Friday Harbor's (Port) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2019. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements.

The Port of Friday Harbor was created on October 1, 1950, by a vote of the citizens of the Port District, which includes San Juan Island in San Juan County, Washington. San Juan County levies and collects taxes on behalf of the Port. The Port is a special purpose government entity that owns three marinas, an airport, two waterfront parks and commercial property on San Juan Island. Ports exist to build infrastructure and promote economic development and tourism within their district.

The Port is administered by a three-member Board of Commissioners elected by Port district voters. The Commissioners, in accordance with the laws of the State of Washington, have appointed an Executive Director to manage Port operations and a Port Auditor to manage the Port's finances.

The Port owns and operates Friday Harbor Marina and Spring Street Landing, located in the town of Friday Harbor. Together, the marinas have approximately 600 slips and moorage spaces which are used by recreational vessels and by commercial businesses. The facilities are also used seasonally by passenger ferries with connections to Seattle, Port Townsend, Bellingham and Victoria B.C., and by scheduled seaplane companies with connections to Seattle.

The Port purchased the Albert Jensen & Sons boatyard and marina in 2018. The boatyard is operated under lease by an independent marine services provider. The Port manages the marina and is currently planning for renovations and expansion. The property includes some undeveloped uplands in industrial zoning for which future uses are being considered.

In 2019 the Port purchased Shipyard Cove Marina, which is adjacent to Albert Jensen & Sons marina. The port is developing a layout to connect the two marinas together and expand the footprint within the Port Management Agreement with Department of Natural Resources. The purchase of Shipyard Cove by the Port allows access to the only public barge landing on San Juan Island.

The Port owns properties adjacent to the marinas that are leased to marine related businesses and to a restaurant, as well as parking lots and a waterfront park. A marine fuel facility is operated by a concessionaire. Friday Harbor is a United States Port of Entry and the Port leases facilities to U.S. Customs and Border Protection.

Friday Harbor Airport is a 200-acre facility owned and operated by the Port. Among the Port's tenants are airlines that provide scheduled service to Seattle, Bellingham, Anacortes and to other islands, as well as charter air services. The Port leases land to private pilots for the construction of hangars. A helipad for emergency medical evacuations is located on the airport. Skagit Valley College leases property at the airport for its Friday Harbor campus.

The Port also owns Jackson Beach, a recreational beach and boat launch facility two miles south of Friday Harbor.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Port's financial statements. The Port's financial statements include two components: 1) the Port's basic financial statements, and 2) the notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the Port's basic financial statements and can be found following the financial statements of this report.

The basic financial statements include: the *Statement of Fund Net Position*, the *Statement of Revenues, Expenses and Changes in Fund Net Position* and the *Statement of Cash Flows*.

The *Statement of Fund Net Position* and the *Statement of Revenues, Expenses and Changes in Fund Net Position* tell us whether the Port's financial position has improved as a result of the year's activities. The *Statement of Fund Net Position* provides information on all of the Port's assets, liabilities and deferred inflows and outflows. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is called fund net position. Over time, increases or decreases in fund net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The *Statement of Revenues, Expenses and Changes in Fund Net Position* show how the Port's fund net position changed during the year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows (Accrual Basis).

FINANCIAL ANALYSIS

Condensed Financial Position Information

The *Statement of Fund Net Position* reflects the Port's financial position at year-end. Financial position is represented by the difference between assets owned, deferred outflows and liabilities owed at a specific point in time. The difference between the two is reflected as fund net position. As previously noted, changes in fund net position over time can be an indicator of the Port's financial position.

Financial Highlights

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by \$30,995,411 (reported as total fund net position). Total fund net position increased by 1,365,286 (4.61%) in comparison with the prior year, primarily due to the increase of current assets \$413,770 and \$5,041,867 in capital assets net of accumulated depreciation.
- Total assets increased by \$5,627,375 (14.09%) from 2018, due to the purchase of Shipyard Cove Marina.
- Total liabilities increased by \$4,270,203 (41.80%) from 2018 due to the issuance of the 2019 Revenue Bond for the purpose of purchasing Shipyard Cove Marina and the payoff of Albert Jensen and Son's Boatyard note.
- The following condensed financial information provides an overview of the Port's financial position for the fiscal years ended December 31:

Summary of Statement of Net Position			
	2019		2018
Current Assets	\$	2,635,247	\$ 2,221,477
Current Assets, Restricted		560,101	395,413
Noncurrent Assets		499,845	492,795
Capital Assets, Net		41,881,397	36,839,530
Total Assets		45,576,590	39,949,215
Deferred Outflows of Resources		125,106	98,948
Total Assets and Deferred Outflows of Resources		45,701,696	40,048,163
Current Liabilities		909,562	907,435
Noncurrent Liabilities		13,575,606	9,307,530
Total Liabilities		14,485,168	10,214,965
Deferred Inflow of Resources		261,117	243,074
Net Investment in Capital Assets		27,422,893	26,300,108
Restricted for Debt Service		435,101	395,413
Unrestricted		3,097,417	2,894,604
Total Net Position	\$	30,955,411	\$ 29,590,125

The Total Net Position increased by \$1,365,286 (4.61%) in 2019 due to the following:

- The Port's total assets increased by \$5,627,375 (14.09%) over prior year.
- Current assets increased by \$413,770 (18.63%) in 2019. This is primarily a result of the increase of cash after a complete year of revenue collection resulting from the mid-year 2018 purchase of Albert Jensen and Son's boatyard and marina.
- Current assets restricted increased by \$164,688 (41.65%) due to the 2019 Revenue bond issuance and the funds required to be held in reserves.
- Noncurrent assets increased slightly by \$7,050 (1.43%) which reflects the change in fair market value of the Port's investment bond.
- Capital Assets, net increased \$5,041,867 (13.69%) due to the purchase of Shipyard Cove Marina property.

- Noncurrent Liabilities increased \$4,268,076 (45.86%) with issuance of the Ports 2019 Revenue Bond. This bond was used to purchase Shipyard Cove Marina, and payoff Albert Jensen and Sons note payable.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents how the Port's fund net position changed during the current and previous fiscal year as a result of operations. The Port employs an accounting method that records revenue and expenses when they are incurred, regardless of when cash is exchanged. Thus, some revenues and expenses reported in this statement may affect future period cash flows.

Summary of Statement of Revenue, Expenses and Change in Fund Net Position		
	2019	Restated 2018
Airport Operation Revenues	\$ 151,990	\$ 138,733
Marina Operation Revenues	3,169,874	2,950,759
Property Lease / Rental Revenues	968,198	892,290
Total Revenues	4,290,062	3,981,782
Operation Expenses	1,472,032	1,512,504
Maintenance Expenses	821,118	675,346
General & Administrative Expenses	639,315	570,385
Depreciation	1,552,736	1,373,583
Total Expenses	4,485,201	4,131,818
Net Operating Income	(195,139)	(150,036)
Nonoperating Revenue	715,831	528,440
Nonoperating Expenses	(544,474)	(532,412)
Total Nonoperating	171,357	(3,972)
Capital Grants & Contributions	1,389,068	1,153,325
Change in Net Position	1,365,286	999,317
Net Position - Beginning	29,590,125	28,590,808
Net Position - Ending	\$ 30,955,411	\$ 29,590,125

**2018 financials are restated to conform to the current year presentation.*

Revenues:

- Total operating revenues increased by approximately \$308,280 (7.74%) over 2018 revenues.
- The airport revenues increased \$13,257 (9.56%) over 2018, resulting from transfer fees collected when a private hanger is sold on port property.
- The marina operating revenue represents both the Friday Harbor and Jensen's marina locations. Revenue increased by \$219,115 (7.43%) over the prior year. Fiscal year 2019 was the first full year of revenue collected from the Jensen's marina.
- The Ports leased property revenues increased by \$75,908 (8.51%) from the prior year. The increase is primarily due to the successful performance of the Ports anchor tenant in the Spring Street Landing Building and the boatyard operator at Jensen's marina.

Expenses:

- 2019 general operating expenses decreased by approximately \$40,472 (2.68%) over 2018 expenses.
- Maintenance expenses increased by \$145,772 (21.58%). With the purchase of additional Port properties, additional staff is needed to clean and maintain facilities.
- 2019 general and administrative expenses increased by \$68,930 (12.08%). This increase is primarily due to higher audit and legal fees.
- Depreciation expense increased by \$179,153 (13.04%). This figure reflects 2018's purchase of Jensen's marina and other assets.

Non-Operating Revenues:

- Non-operating revenue for the year ended December 31, 2019 totaled \$715,831, an increase of \$187,391 (35.46%). The primary increase is due to the sale of an airport hangar, which resulted in a gain of \$159,965. Property Taxes collected totaled \$492,165 up from more than \$10,800 from 2018.

Non-Operating Expenses:

- Non-operating expenses for the year ended December 31, 2019 were \$544,474 an increase of \$12,062 (2.27%) over 2018. This amount represents bond interest expense, loan fees and preliminary contamination studies.

Capital Contributions:

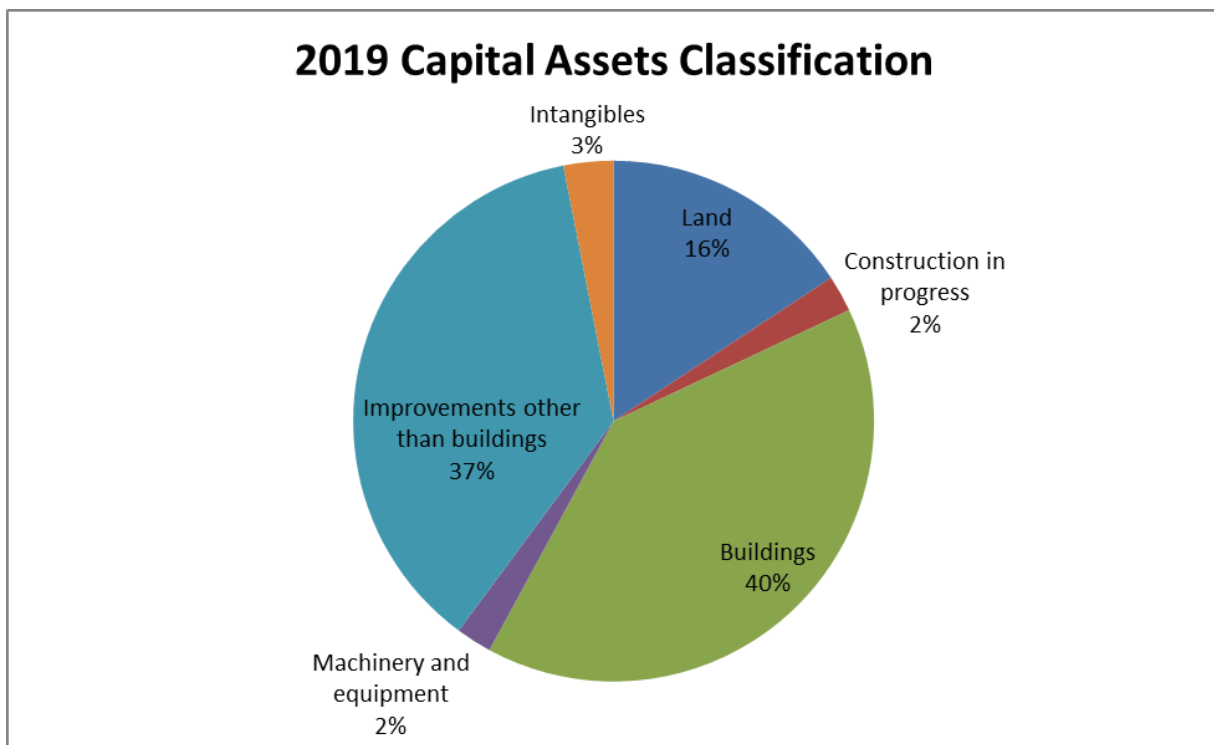
- Capital contributions to the Port increased \$235,743 (20.44%) in 2019 totaling \$1,389,068. The Federal Aviation Administration (FAA) represented the largest contributor in the amount of \$932,238 towards the obstruction removal, airport master plan update and Mullis pond stormwater expansion project. The Port also received \$256,484 from Recreation Conservation Organization (RCO) for rehabilitation and electrical upgrades of marina guest docks and purchase of new activity float. Local and State grants round out the remaining contributions.

Capital Asset and Debt Administration

Capital Assets

The Port's capital assets include land, construction in progress, buildings, machinery and equipment, improvements other than buildings, and intangibles. The Port's total net capital assets as of December 31, 2019 totaled \$41,881,397 (net of accumulated depreciation). This is a net increase of \$5,041,857 (13.69%) over the prior year and results from capital asset purchases and improvement projects, offset by current year depreciation expense. The most significant purchase in 2019 was the acquisition of Shipyard Cove Marina.

CAPITAL ASSETS	2019	2018
Land	\$ 10,531,692	\$ 9,165,067
Construction in progress	1,516,748	1,117,388
Buildings	26,735,343	21,563,681
Improvements other than buildings	24,625,566	25,039,258
Machinery and equipment	1,489,774	1,426,276
Intangibles	2,072,010	2,064,871
	<u>\$ 66,971,133</u>	<u>\$ 60,376,541</u>



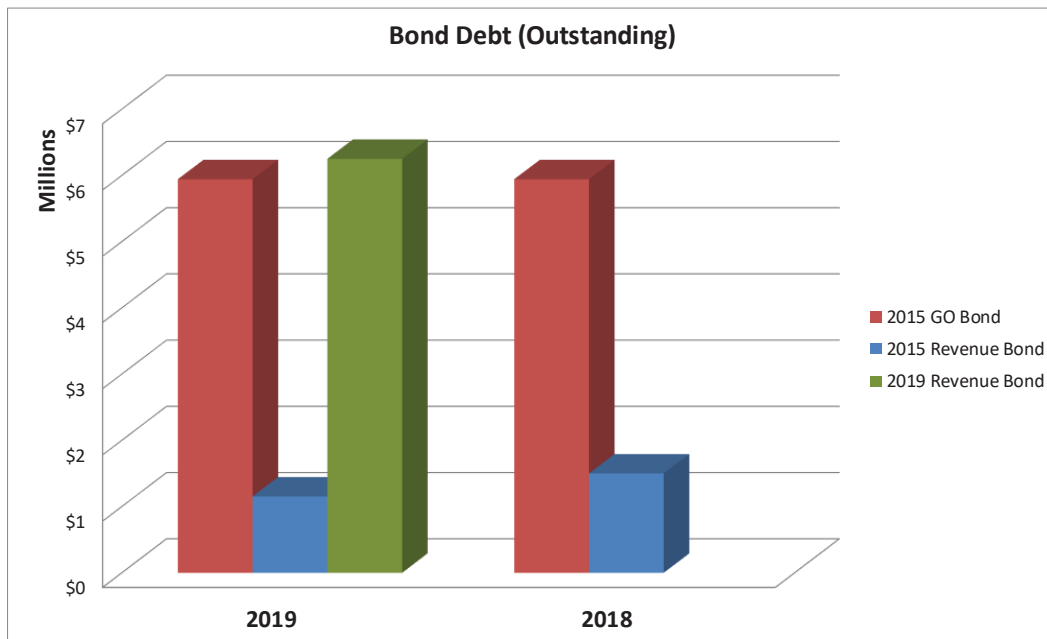
Major capital asset spending during 2019 included the following:

Shipyard Cove Marina Acquisition	\$	4,538,268
Mullis Pond Expansion	\$	860,147
G & H Dock Improvements	\$	503,279
Airport Master Plan	\$	168,321
Activity Float	\$	141,875
Jackson Beach Picnic Shelter	\$	98,203
W Dock Finger Replacements	\$	89,434
Trash Compactor	\$	50,393

Additional information on the Port's capital assets activity may be found in Notes 4 (Capital Assets and Depreciation) and 5 (Construction in Progress) in the *Notes to the Financial Statements*.

Debt

The Port's bonded debt totals \$13,345,364 as of December 31, 2019. Of this amount, \$5,942,543 comprises general obligation debt for the Marina Reconstruction Project and \$1,152,821 of the 2015 revenue bond debt financed for the Spring Street Landing Building. A new bond was issued in 2019 in the amount of \$6,250,000 to finance the purchase of Shipyard Cove Marina, and payoff the Jensen note payable. This increase from 2018 totaled \$6,150,000. All bond payments continue to be paid on a regular basis.



Additional information on the Port's long-term debt, can be found in Note 8 in the Notes to the Financial Statements.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS OF THE PORT

With the completion of the new Airport Master Plan, the Port anticipates an increased level of capital projects over the next decade or more. This increased capital spending will be conditioned upon the Port's available finances and WSDOT matching funds.

The Port anticipates moderate capital expenditures associated with urgent repairs and remedial actions at the newly acquired Jensen and Shipyard Cove facilities. These expenditures will be covered with typical levels of capital spending budgets. More extensive remedial action and redevelopment will largely be grant dependent and has no fixed schedule at this point.

The Port will be facing challenges in 2020 from the affect of Covid-19 virus and the impact on local businesses and recreational moorage. Revenue and expenditures throughout the year will be closely monitored.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives.

If you have questions about this report, or if you need additional financial information, please contact Phyllis Johnson, Port Auditor, P. O. Box 889, Friday Harbor Washington 98250, or by phone at 360-378-2688 or www.portfridayharbor.org contact us.

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION
For the Year Ended December 31, 2019

Assets

Current Assets

Cash & Cash Equivalents	\$ 2,068,406
Cash Restricted	560,101
Accounts Receivables - net of allowance for doubtful accounts	108,748
Property Taxes Receivable	12,599
Due from Other Governments	368,448
Prepaid Expenses	75,609
Interest Receivable	<u>1,437</u>
Total Current Assets	<u>3,195,348</u>

Noncurrent Assets

Investments	499,845
Capital Assets, not being depreciated	12,048,441
Capital Assets, being depreciated (net)	<u>29,832,956</u>
Total Noncurrent Assets	<u>42,381,242</u>
Total Assets	<u>45,576,590</u>

Deferred Outflows of Resources

Amounts related to pensions	<u>125,106</u>
Total Deferred Outflows of Resources	<u>125,106</u>

Table continued on next page

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION
For the Year Ended December 31, 2019

Liabilities

Current Liabilities

Accounts Payable	236,342
Accrued Payroll Liabilities	79,708
Customer Deposits	257,009
Bond Payable - Current	254,940
Accrued Compensated Absences	59,425
Accrued Interest Payable	22,138
Total Current Liabilities	909,562

Noncurrent Liabilities

General Obligation Bond Payable	5,942,543
Revenue Bond Payable	7,147,881
PERS Payable	80,057
Net Pension Liability	405,125
Total Noncurrent Liabilities	13,575,606
Total Liabilities	14,485,168

Deferred Inflows of Resources

Amounts related to pensions	261,117
Total Deferred Inflows of Resources	261,117

Net Position

Net Investment in Capital Assets	27,422,893
Restricted for Debt Service	435,101
Unrestricted	3,097,417
Total Net Position	\$ 30,955,411

The Notes to the Financial Statements are in integral part of the Statements

PORT OF FRIDAY HAROR

STATEMENT OF REVENUE, EXPENSES & CHANGES IN FUND NET POSTION

For the Year Ended December 31, 2019

OPERATING REVENUES

Airport Operations	\$ 151,990
Marina Operations	3,169,874
Property Lease/ Rental Operations	968,198
Total Operating Revenues	<u>4,290,062</u>

OPERATING EXPENSES

General operations	1,472,032
Maintenance operations	821,118
General and administrative	639,315
Depreciation	1,552,736
Total Operating Expenses	<u>4,485,201</u>

NET-OPERATING INCOME **(195,139)**

NON-OPERATING REVENUES

Taxes levied for general purpose	492,165
Investment income	53,115
Gain on disposal of assets	159,965
Change in fair value of investments	7,050
Miscellaneous taxes	3,537
Total Non-Operating Revenues	<u>715,831</u>

NON-OPERATING EXPENSES

Environmental remediation	183,589
Interest expense	324,545
Other expenses	36,340
Total Non-Operating Expenses	<u>544,474</u>

INCOME BEFORE CAPITAL CONTRIBUTIONS **(23,782)**

Capital contributions	<u>1,389,068</u>
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INCREASE IN NET POSITION	1,365,286
NET POSITION - BEGINNING OF PERIOD	29,590,125
NET POSITION - END OF PERIOD	<u>\$ 30,955,411</u>

The Notes to the Financial Statements are in integral part of the Statements

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

CASH FLOW FROM OPERATING ACTIVITIES

Receipts from customers	\$ 4,289,755
Payments to suppliers	(1,298,732)
Payments to employees	(1,769,760)
Proceeds from inventory held for sale	447,800
Operating grant receipts	23,142
Environmental remediation payments	(183,589)
Net cash provided (used) by operating activities	<u>1,508,616</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Property tax received	494,208
Other taxes received	3,538
Net cash provided (used) by non-financing activities	<u>497,746</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Receipts from capital grants and contributions	1,166,689
Purchase and construction of capital assets	(6,564,898)
Proceeds from capital related debt	6,250,000
Principal paid on note payable	(1,618,370)
Principal paid on bonds	(347,192)
Interest paid on capital debt	(324,356)
Net cash provided (used) by capital and related financing activities	<u>(1,438,127)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest and dividends	53,115
Net cash provided (used) by investing activities	<u>53,115</u>

Net increase (decrease) in cash and cash equivalents	621,350
Cash and cash equivalents as of January 1	2,007,157
Cash and cash equivalents as of December 31	<u>\$ 2,628,507</u>

The Notes to the Financial Statements are in integral part of the Statements

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ (195,139)
Adjustments to reconcile operating income (loss):	
Depreciation and amortization	1,552,736
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	(8,671)
Increase (decrease) in accounts payable	45,690
Increase (decrease) in customer deposits	31,506
Decrease (increase) in prepaid items	(8,137)
Increase (decrease) in other payables	23,927
Increase (decrease) in pension accounts	(161,167)
Proceeds from inventory held for sale	447,800
Other payments	(36,340)
Environmental remediation payments	(183,589)
Total adjustments	1,703,755
Net cash provided (used) by operating activities	<u>\$ 1,508,616</u>

The Notes to the Financial Statements are in integral part of the Statements

PORT OF FRIDAY HARBOR
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Reporting Entity

The Port of Friday Harbor was incorporated in 1950 and operates under the laws of the state of Washington applicable to a Port district. The Port is a special purpose government and provides marina, airport and property lease/rental to the general public and is supported primarily through user charges. The Port is governed by a three member elected commission board.

As required by generally accepted accounting principals, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of fund net position (or balance sheet). Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of fund net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in fund net position. The Port discloses changes in cash flows by a separate statement that presents their operating, non-capital financing, capital and related financing and investing activities.

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

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Ports principal ongoing operations. The principal operating revenues of the Port are charges to customers for the use of Port facilities, including marina, airport, utilities and property rentals.

Operating expenses for the Port include (e.g., the cost of sales and services, administrative expenses, depreciation on capital assets, etc.). All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Use of Estimates

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

D. Assets, Liabilities and Fund Net Position

1. Cash and Cash Equivalents

It is the Port of Friday Harbor's policy to invest all temporary cash surpluses. At December 31, 2019 the Treasurer was holding \$2,068,406 in short-term residual investments of surplus cash. This amount is classified as a portion of cash and cash equivalents per the Statement of Fund Net Position.

2. Investments – See Note 2, *Deposits and Investments*.

3. Receivables

Accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered. As of December 31, 2019, the customer accounts receivable was \$114,472.

The Port uses the reserve method of accounting for doubtful accounts. As of December 31, 2019, the Port's reserve was \$5,724. The amount of accounts receivable shown in the financial statements is net of this reserve amount. The Port accrues this reserve amount as 5% of accounts receivable.

Taxes receivable consists of property taxes and related interest and penalties. (See Note 3, *Property Taxes*) Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

4. Due from other governments

This account includes amounts due from other governments for grants and entitlements.

6. Restricted Assets

This account contains resources for debt service. In accordance with the 2015 and 2019 Revenue Bond resolutions, a separate restricted account is required.

7. Capital Assets and Depreciation – See Note 4, *Capital Assets and Depreciation*

8. Deferred Outflows/Inflows of Resources

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

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Port records unpaid vacation leave as an expense and liability when incurred.

Vacation pay, which may be accumulated up to 18 months worth of accrual and is payable upon separation, retirement or death. The accrued compensated absences balance at December 31, 2019, was \$59,425.

9. Pensions

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

PERS Payable of \$80,057 represents the purchase of service credits retroactive to the employees' original hire date at the time the Port entered into the Public Employees Retirement State Plan. This commitment will continue for the next two years.

11. Other Accrued Liabilities

These accounts consist of accrued wages, accrued employee benefits, as well as business and leasehold taxes.

12. Long-Term Debt - See Note 8, *Long-Term Debt*.

NOTE 2 – DEPOSITS AND INVESTMENTS:

A. Deposits:

The Port's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As investments in the Washington Local Government Investment Pool have a maturity of three months or less when purchased, deposit in the Investment Pool are included in cash and cash equivalents.

B. Investment

Investments, are stated at fair value, based on quoted market prices in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in the fair value of investment is recognized as an increase or decrease to the investment assets and investment income.

Interest income on investments is recognized in non-operating revenue as earned. Changes in fair value of investment is recognized on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

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

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

2. Certificate of deposit in commercial banks, savings and loan associations, and mutual savings banks doing business in this state, but not holding collateral pursuant to RCW 39.58, in an amount not in excess of FDIC or FSLIC insurance coverage.
3. Certificates, notes, or bonds of the United States, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the government of the United States.
4. Federal home loan bank notes and bonds, Federal land bank bonds, Federal national mortgage association notes, debentures, and guaranteed certificates of participation
5. Obligation of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve systems.
6. Bonds of the state of Washington and any local government in the State of Washington that carry one of the three highest ratings of a nationally recognized rating agency.
7. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington that carry one of the three highest rating of a nationally recognized rating agency.
8. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

C. Investments

Investments are subject to the following risks:

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

As of December 31, 2019, the Port held the following investments:

As of December 31, 2019	Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 3	3 to 5
Federal Farm Credit Bank	\$ 499,845	\$ 499,845	\$ -	\$ -

In addition to the interest rate risk disclosed above, the Port's portfolio includes investments with fair value that are sensitive to interest rate changes.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the Investment. This is measured by the assignment of a rating by a nationally recognized statistic rating organization.

As of December 31, 2019	Moody's Equivelent Credit Ratings					
Investment Type	Fair Value	Aaa	Aa1	Aa2	Aa3	Not Rated
Federal Farm Credit Bank	\$ 499,845	\$ 499,845	\$ -	\$ -	\$ -	\$ -

Custodial Credit Risk – Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. All security transactions are conducted on a delivery-versus-payment (DVP) basis. This means that payment is made simultaneously with the receipts of the security. These securities are delivered to the port's custodial safekeeping bank, Islanders Bank. The exception of the Washington State Local Government Investment Pool, the port's investments are registered, or held by the County Treasurer.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Port does not have any of this type of investments.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Port has no foreign investments.

Investments Measured at Fair Value

Investments, stated at fair value, are based on quoted market prices in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in the fair value of an investment is recognized as an increase and decrease in the investment asset and investment income.

The Port measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2019, the Port held the following investments measured at fair value:

Investments by Fair Value Level	As of 12/31/2019	Quoted Price in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal Farm Credit Bank	\$ 499,845	-	\$ 499,845	-

D. Change in Fair Value of Investments

Change in fair value of investments of \$7,050 is the difference between the price at December 31, 2018 and the fair value at December 31, 2019. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. If the Port holds the investments to maturity or call date, there will be no realized loss or gain.

E. Investment in Local Government Investment Pool (LGIP)

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

Investment in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates the fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB Statement 79 for external investment pool that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. As the maturity of LGIP investments is 3 months or less, the Port considers LGIP investment to be cash equivalents.

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

F. Summary of Deposits and Investment Balances

The table below reconciles the Port's deposits and investment balances as of December 31, 2019:

As of December 31, 2019	Total
Cash and Cash Equivalents	
Cash on Hand	\$ 578,729
LGIP	2,049,779
Total Cash and Cash Equivalents	\$ 2,628,508
Investments	
Federal Farm Credit Bank	\$ 499,845
Total Cash and Investments	\$ 3,128,353

NOTE 3 – PROPERTY TAXES:

The San Juan County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by the 10th day of the month following collection to the Port by the San Juan County Treasurer. A revaluation of all property is required every three years.

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

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general Port services.

The Port's regular levy for 2019 was \$.1626 per \$1,000 on assessed valuation of \$3,220,889,877 for a total regular tax of \$492,000. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION:**A. Capital Assets**

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial investment cost of more than \$5,000 and an estimated useful life in excess of 1 year. Donated capital assets are recorded at acquisition value at the date of donation.

Cost for additional improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost for normal maintenance and repairs is not capitalized.

The Port acquires certain assets with funding provided by federal and state financial assist. When an asset is sold, retired or otherwise disposed of, the original cost of the property and the cost of installation, less salvage is removed from the Ports capital asset accounts, accumulated depreciation is charged with the asset sold, and the net gain or loss on disposition is credited or charged to income.

Capital asset activity for the year ended December 31, 2019 was as follows:

Description	Beginning Balance 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
Capital assets, not being depreciated:				
Land	\$ 9,165,067	\$ 1,366,625	\$ -	\$ 10,531,692
Construction in process	1,117,388	1,978,595	(1,579,235)	1,516,749
Total capital assets, not being depreciated	10,282,455	3,345,220	(1,579,235)	12,048,441
Capital assets being depreciated				
Buildings	21,563,681	5,171,662	-	26,735,343
Improvements other than buildings *	25,039,258	18,504	(432,196)	24,625,566
Machinery and equipment	1,426,276	63,498	-	1,489,774
Intangible assets	2,064,871	7,139	-	2,072,010
Total capital assets being depreciated	50,094,086	5,260,803	(432,196)	54,922,693
Less accumulated depreciation for :				
Buildings	(7,643,165)	(549,519)	-	(8,192,684)
Improvements other than buildings	(14,288,044)	(704,207)	-	(14,992,251)
Machinery and equipment	(1,019,416)	(51,516)	-	(1,070,932)
Intangible assets	(586,376)	(247,495)	-	(833,871)
Total accumulated depreciation	(23,537,001)	(1,552,736)	-	(25,089,737)
Total capital assets being depreciated, net	26,557,085	3,708,067	(432,196)	29,832,956
Total capital assets, net	\$ 36,839,540	\$ 7,053,288	\$ (2,011,431)	\$ 41,881,397

*The decrease of \$432,196 is to correct previous years table which inadvertently was recorded twice.

NOTE 5 – CONSTRUCTION COMMITMENTS:

The Port of Friday Harbor has active construction projects as of December 31, 2019. The projects include: Completion of the Spring Street Landing Building, Airport Environmental Assessment, and Obstruction tree removal. At year end the Port's construction commitments are as follows:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
Airport Master Plan	511,608	21,488
Mullis Pond Expansion	860,147	45,677
W Dock Finger Replacements	26,169	3,765
Front Street Boardwalk	4,952	95,048
	<u>\$ 1,402,876</u>	<u>\$ 165,978</u>

NOTE 6 – PENSION PLANS:

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 405,125
Deferred outflows of resources	\$ 125,106
Deferred inflows of resources	\$ 261,117
Pension expense/expenditures	\$ 33,870

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January - June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July–December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for

retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January - June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July-December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

The Port's actual PERS plan contributions were \$60,426 to PERS Plan 1 and \$94,579 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

Actuarial results reflect the following changes in assumptions and methods since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated Cost-of-Living Adjustment (COLA) programming to reflect legislation signed during the 2018 Legislative Session (C151 L18). This law provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5 percent increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.40% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3, PSERS Plan 2, SERS Plans 2 and 3, and TRS Plans 2 and 3 employers, whose rates include a component for the PERS Plan 1 or TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/ (Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease 6.40%	Current Rate 7.40%	1% Increase 8.40%
PERS 1	\$ 382,552	\$ 305,475	\$ 238,601
PERS 2/3	\$ 764,274	\$ 99,650	\$ (445,718)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the Port reported a total pension liability of \$405,125 for its proportionate share of the net pension liabilities as follows:

Plan	Liability
PERS 1	\$ 305,475
PERS 2/3	\$ 99,650

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.00777%	0.00794%	0.00017%
PERS 2/3	0.01002%	0.01026%	0.00024%

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

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 22,385
PERS 2/3	\$ 11,484

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	\$ (20,408)
Contributions subsequent to the measurement date	\$ 32,791	-
TOTAL	\$ 32,791	\$ (20,408)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,550	\$ (21,424)
Net difference between projected and actual investment earnings on pension plan investments	-	\$ (145,049)
Changes of assumptions	\$ 2,552	\$ (41,810)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 7,143	\$ (32,425)
Contributions subsequent to the measurement date	\$ 54,070	-
TOTAL	\$ 92,315	\$ (240,709)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,550	\$ (21,424)
Net difference between projected and actual investment earnings on pension plan investments	-	\$ (165,457)
Changes of assumptions	\$ 2,552	\$ (41,810)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 7,143	\$ (32,426)
Contributions subsequent to the measurement date	\$ 86,861	-
TOTAL	\$ 125,106	\$ (261,117)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2020	\$ (4,505)	\$ (50,468)
2021	\$ (10,672)	\$ (80,855)
2022	\$ (3,808)	\$ (39,426)
2023	\$ (1,423)	\$ (24,080)
2024	-	\$ (9,483)
Thereafter	-	\$ 1,848

NOTE 7 – RISK MANAGEMENT:

The Port of Friday Harbor is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

For the last three years no settlements exceeded insurance coverage.

NOTE 8 – LONG-TERM DEBT:

A. Long-term debt

The Port issues general obligation bonds to finance acquisition and construction of capital assets. Both general obligation and revenue bonds are repaid from revenues.

General Obligation Bonds

The Port’s 2015 Limited Tax General Obligation Bond Refunding Bond in the amount of \$6,300,000 has terms of interest only for the first ten years. This allows the Port to payoff the 2015 Revenue Bond first. Both the principal and interest are payable out of annual levies of ad valorem taxes. This bond matures in 2040.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/19
Refund 2014 Tax Exempt General Obligation Bond (2015 GO Bond)	2040	3.25%	\$ 6,300,000	\$ 5,942,543

The General Obligation Bond was structured as interest only payments for the first ten (10) years. This allows the Port to pay off the Revenue Bond first, which is at a higher interest rate.

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

Year Ending December 31	Principal	Interest
2020	\$ -	\$ 196,352
2021	-	195,815
2022	-	195,815
2023	-	195,815
2024	-	196,352
2025-2029	1,313,642	916,369
2030-2034	1,900,971	641,777
2035-2039	2,235,647	307,100
2040	492,283	16,265
Total	\$ 5,942,543	\$ 2,861,660

Revenue bond debt

The Port maintains both a debt service fund and revenue bond restricted reserve fund. The debt service fund is for semi-annual payments due on June 1st and December 1st. The Port also maintains a revenue bond reserve fund. At December 31, 2019, restricted assets contain \$560,101 in reserves as required by bond indentures.

The Port has pledged future Spring Street Landing revenues and net revenues of the Port to repay the \$2,500,000 Revenue Bond. This bond has no penalty for prepayment. Since the inception of the bond the Port has made \$100,000 additional principal payments to accelerate the payoff. This bond matures in 2025.

In 2019 the Port issued an additional revenue bond to purchase Shipyard Cove Marina. Revenue from Shipyard Cove marina moorage and building leases along with net revenues of the Port are used to repay the bond. The Port was approved for \$8,500,000 to purchase the property and make marina improvements and payoff the private note for the purchase of Jensen's Shipyard. The original draw was \$6,250,000 and the remaining \$2,250,000 is an option that must be drawn by June 1, 2021. There is no prepayment penalty. This bond matures in 2039.

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/19
2015 Revenue Bond for capital projects including Spring Street Landing Building construction.	2026	4.39%	\$ 2,500,000	\$ 1,145,407

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/18
2019 Revenue Bond to acquire, construct, Shipyard Cove Marina and refinance existing note on Jensen's Marina, and make other capital improvements.	2039	3.00%	\$ 6,250,000	\$ 6,250,000

The annual debt service requirements to maturity for revenue bond are as follows:

2015 Revenue Bond

Year Ending December 31	Principal	Interest
2020	\$ 254,940	\$ 51,121
2021	260,629	39,634
2022	266,445	28,034
2023	272,391	16,175
2024	91,003	4,062
Total	\$ 1,145,407	\$ 139,026

2019 Revenue Bond

Year Ending December 31	Principal	Interest
2020	\$ -	\$ 182,813
2021	207,243	190,104
2022	210,404	177,401
2023	213,613	171,372
2024	216,870	171,660
2025-2029	1,134,980	753,929
2030-2034	1,224,202	575,893
2035-2039	3,042,688	383,863
Total	\$ 6,250,000	\$ 2,607,035

Changes in Long-Term Liabilities

During the year ended December 31, 2019 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Bond Payable: Refunding 2014 G.O. Bond (2015 G.O. Bond)	\$ 5,942,543	\$ -	\$ -	\$ 5,942,543	\$ -
Bond Payable: 2015 Revenue Bond	\$ 1,500,012	\$ -	\$ (347,192)	\$ 1,152,820	\$ 247,191
Bond Payable: 2019 Revenue Bond	\$ -	\$ 6,250,000	\$ -	\$ 6,250,000	\$ -
Jensen Note Payable 2018	\$ 1,618,370	\$ -	\$ (1,618,370)	\$ -	\$ -
Net Pension Liability	\$ 518,145	\$ -	\$ (113,020)	\$ 405,125	\$ -
PERS Payable	\$ 120,090	\$ -	\$ (40,032)	\$ 80,058	\$ 40,032
Total long-term liabilities	\$ 9,699,160	\$ 6,250,000	\$ (2,118,614)	\$ 13,830,546	\$ 287,223

- The General Obligation Bond is interest only for the first ten (10) years, allowing the Port to pay down on the Revenue Bond first, which is a higher interest rate.
- PERS Payable of \$80,058 represents the purchase of service credits retroactive to the employees' original hire date at the time the Port entered into the Public Employees Retirement State Plan.

NOTE 9 – CONTINGENCIES AND LITIGATION:

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Port will have to make payment. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims. We continue to monitor the claim situation and maintain legal contact with the insurance company.

The Port participates in a number of federal and state-assisted programs. These grants are subject to audit by grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

NOTE 10 – RESTRICTED COMPONENT OF FUND NET POSITION:

The Port has a restricted component of fund net position in the amount of \$560,101 as required by both 2015 and 2019 revenue bond resolutions.

NOTE 11 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

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

NOTE 12- OTHER DISCLOSURES:

In 2018 the Port of Friday Harbor purchased the Albert Jensen & Sons Shipyard and Marina after a Phase 1 Environmental Site Assessment and review by a Citizen Advisory Board. From 1910 to present time, portions of the property have been used as a working industrial shipyard facility. Based upon the Phase 1 Environmental Site Assessment we suspected the property would have ground and sediment contaminants consistent with the historic shipyard operations.

Following the purchase, we conducted a Phase 2 Environmental Site Assessment and are in the process of completing additional planning and analysis through an Ecology Integrated Planning Grant. At this time we have confirmation of ground and sediment contaminants consistent with historic shipyard operations in the form of a Conceptual Site Model and Data Gaps Analysis. Based on the preliminary soil, groundwater, and sediment sampling information the Department of Ecology has determined that contaminants are present and as the property owner the Port is a Potentially Liable Party under the Model Toxics Control Act.

The next step in the process is to negotiate an Agreed Order with Ecology to conduct a Remedial Investigation (RI) and Feasibility Study (FS) to determine the full nature and extents of the contaminants as well as what needs to be done about it and the probable costs. This step does not have a defined scope, schedule or cost at this point and our intent is to conduct the RI and FS with the assistance of an Ecology Model Toxics Control Act grant.

NOTE 13 – SUBSEQUENT EVENT:

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus, Covid-19. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

Due to these closures, many businesses in the community as well as the airline industry have had negative financial impacts. The Port leases space to many businesses that have been affected by the closures, and many have requested rent relief either in the form of deferred rent. The Port is in the process of analyzing and developing a plan to respond to these requests. The length of time these measures will be in place, and the full extent of the financial impact on the Port is unknown at this time.

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2019

<u>Year Ended June 30,</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability</u>	<u>Employer's covered payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2019	0.007944%	\$ 305,475	\$ 1,120,861	27.25%	67.12%
2018	0.007770%	\$ 347,011	\$ 1,077,922	32.19%	63.22%
2017	0.007815%	\$ 370,828	\$ 985,579	37.63%	61.24%
2016	0.008813%	\$ 473,300	\$ 1,047,823	45.17%	57.03%
2015	0.008586%	\$ 449,128	\$ 984,029	45.64%	59.10%
2014	0.009778%	\$ 492,571	\$ 1,068,197	46.11%	61.19%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2019

<u>Year Ended June 30,</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability</u>	<u>Employer's covered payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2019	0.010259%	\$ 99,650	\$ 1,120,861	8.89%	97.77%
2018	0.010023%	\$ 171,134	\$ 1,077,922	15.88%	95.77%
2017	0.010054%	\$ 349,328	\$ 985,579	35.44%	90.97%
2016	0.011308%	\$ 569,349	\$ 1,047,823	54.34%	85.82%
2015	0.011090%	\$ 396,252	\$ 984,029	40.27%	89.20%
2014	0.012589%	\$ 254,469	\$ 1,068,197	23.82%	93.29%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Employer Contributions
PERS 1
For the Fiscal Year Ended December 31, 2019

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2019	\$ 60,426	\$ (60,426)	-	\$ 1,223,817	4.94%
2018	\$ 57,714	\$ (57,714)	-	\$ 1,139,780	5.06%
2017	\$ 48,573	\$ (48,573)	-	\$ 990,279	4.90%
2016	\$ 50,196	\$ (50,196)	-	\$ 1,052,322	4.77%
2015	\$ 44,709	\$ (44,709)	-	\$ 999,591	4.47%
2014	\$ 42,456	\$ (42,456)	-	\$ 1,031,282	4.12%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Employer Contributions
PERS 2/3
For the Fiscal Year Ended December 31, 2019

<u>Year Ended December 31,</u>	<u>Statutorily or contractually required contributions</u>	<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2019	\$ 94,579	\$ (94,579)	-	\$ 1,223,817	7.73%
2018	\$ 85,485	\$ (85,485)	-	\$ 1,139,780	7.50%
2017	\$ 68,240	\$ (68,240)	-	\$ 990,279	6.89%
2016	\$ 65,560	\$ (65,560)	-	\$ 1,052,322	6.23%
2015	\$ 57,428	\$ (57,428)	-	\$ 999,591	5.75%
2014	\$ 52,526	\$ (52,526)	-	\$ 1,031,282	5.09%

Port of Friday Harbor
Notes to Required Supplemental Information - Pension

As of December 31
Last Six Fiscal Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2014, therefore there is no data available for years prior to 2014. Eventually, the schedules will show ten years of data.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3: Covered payroll

Covered payroll has been presented in accordance with GASB 82, *Pension Issues*. Covered payroll includes all payroll on which a contribution is based.

Note 4: Contribution rates

Rates in effect during the periods covered by the Required Supplemental Information are below:

PERS 1

<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	current	12.86% *

* Employer contribution rate includes an administrative expense rate of 0.18%

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<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	current	12.86% *

* Employer contribution rate includes an administrative expense rate of 0.18%

**Port of Friday Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures				Passed through to Subrecipients	Note
					From Pass- Through Awards	From Direct Awards	Total			
	U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Recreational and Conservation Office)	Clean Vessel Act	15.616	CVA 07-145-04, 315-025, 133- 250	23,142	-	23,142	-	-	1, 2
	U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Recreation and Conservation Office)	Sportfishing and Boating Safety Act	15.622	F17A900491	255,919	-	255,919	-	-	1, 2
	U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Recreation and Conservation Office)	Sportfishing and Boating Safety Act	15.622	F18AP00249	104,399	-	104,399	-	-	1, 2
					Total CFDA 15.622:	-	360,318	-	-	
	FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0152-33	-	6,425	6,425	-	-	1, 2
	FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0152-34	-	151,489	151,489	-	-	1, 2
	FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0152-35	-	774,324	774,324	-	-	1, 2
					Total CFDA 20.106:	-	932,238	-	-	
					Total Federal Awards Expended:	383,460	1,315,698	-	-	

The accompanying notes are an integral part of this schedule.

PORT OF FRIDAY HARBOR
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019

Note 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of account as the Port of Friday Harbor's financial statements. The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Fixed asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate funds.

Note 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port of Friday Harbor's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – INDIRECT COSTS

The Port of Friday Harbor has not elected to use the 10-percent de minimis indirect cost rate allowed by the Uniform Guidance.

Port of Friday Harbor
Schedule of Passenger Facility Charges Collected, Held and Used
December 31, 2019

	2019			
Unexpended passenger facility charges and interest, beginning of period	March	June	Sept.	Dec.
Passenger Facility Charge Revenue Collected	\$ 7,195	\$ 11,843	\$ 21,024	\$ 12,972
Interest Earned	-	-	-	-
	7,195	11,843	21,024	12,972
Expenses/Expenditures	(7,195)	(11,843)	(21,024)	(12,972)
Unexpended passenger facility charges and interest, end of period	\$ -	\$ -	\$ -	\$ -

NOTE TO SCHEDULE OF PASSENGER FACILITY CHARGES, COLLECTED, HELD AND USED

This schedule is prepared generally on the same basis of accounting as the Port's financial statements. However, while the Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented show only those revenues actually received for the quarter reported. PFC revenues not received prior to the end of each quarter are not accrued and are reported as revenues of the subsequent reporting period.

In 2018, the Port began collection of a new PFC Application totaling \$104,345 (18-03-C-00-FHR) for reimbursements of past expenditures of local funds on FAA Airport Improvement Plan eligible projects that were performed between 2014 and 2017. This Application will expire at the end of 2020, however the Port expects to complete collections by mid- year 2020 and will apply for a new PFC Application on other Airport Improvement Plan eligible projects.

Port of Friday Harbor
Schedule of Passenger Facility Charges Collected, Held and Used
December 31, 2019

The following are the approved projects for PFC collection:

Project Title	Year Completed	PFC Level	Approved PFC
Airport Electrical Upgrade Design and Construction	2016	4.50	67,275
Westside Tie Down Relocation Design and Construction	2016	4.50	6,877
Runway 34 Object Free Area Grading and Drainage Improvements Design and Construction	2016	4.50	9,903
AGIS Survey	2017	4.50	9,540
Environmental Assessment for Phase 1 Obstruction Removal	2017	4.50	10,750
Total Approved PFC			<u>104,345</u>

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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