



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Friday Harbor

For the period January 1, 2020 through December 31, 2020

Published September 30, 2021

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

September 30, 2021

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Friday Harbor's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Friday Harbor January 1, 2020 through December 31, 2020

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
20.106	Airport Improvement Program COVID-19 – CARES Act

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

The Port qualified 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

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, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 16, 2021.

As discussed in Note 14 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown.

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.



Pat McCarthy, State Auditor

Olympia, WA

September 16, 2021

INDEPENDENT AUDITOR'S REPORT

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, 2020 through December 31, 2020

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, 2020. 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, 2020.

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 that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

September 16, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Port of Friday Harbor January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 14.

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, 2020, 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 14 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown. 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 14 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). This schedule is 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 September 16, 2021 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

September 16, 2021

FINANCIAL SECTION

Port of Friday Harbor January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Fund Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2020

Notes to the Schedule of Expenditures of Federal Awards – 2020

PORT OF FRIDAY HARBOR
Management's Discussion and Analysis
Year Ended December 31, 2020

INTRODUCTION

The following is the Port of Friday Harbor's (the Port's) Management Discussion and Analysis of financial activities and performance for the fiscal year ended December 31, 2020, with selected comparative information for the year ended December 31, 2019. Please read it in conjunction with the financial statements and notes to the financial statements, which immediately follow this discussion.

The Port is a Special Purpose Municipal Government, created on October 1, 1950, by a vote of the citizens of San Juan Island in San Juan County, Washington. The Port's primary mission is the fostering of economic development via job creation and maintenance of family wage jobs, while protecting the quality of life, needs and desires of the citizens of the 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 operation, and a Port Auditor to manage the Port's finances.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by \$31,338,174 (reported as total fund net position). Total fund net position increased by \$382,763 (1.24%) in comparison with the prior year.
- Total assets decreased by \$623,887 (1.37%) resulting from the sale a parcel of land overlooking the marina, but also due to the increase in depreciation of prior years' purchases of Jensen's and Shipyard Cove marinas.
- Total liabilities decreased \$839,063 (5.79%) resulting from recording of the asset retirement obligation of the Port's six (6) underground storage tanks in compliance with GASB 83, which increased liabilities, offset by the pay-off of the 2015 Revenue Bond.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis 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 follow the financial statements of this report.

The basic financial statements include: the *Statement of 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* indicate 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).

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

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 and deferred inflows 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.

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		
	2020	2019
Current and restricted assets	\$ 4,266,617	\$ 3,195,348
Noncurrent assets	-	499,845
Capital assets, net	40,686,086	41,881,397
Total Assets	44,952,703	45,576,590
Total Deferred Outflows of Resources	179,721	125,106
Current liabilities	918,045	909,562
Noncurrent liabilities	12,728,060	13,575,606
Total Liabilities	13,646,105	14,485,168
Total Deferred Inflows of Resources	148,145	261,117
Net Position		
Net invested in capital assets	28,618,545	27,422,893
Restricted for debt service	414,829	435,101
Unrestricted	2,304,800	3,097,417
Total Net Position	\$ 31,338,174	\$ 30,955,411

- Current and restricted assets increased by \$1,071,269 (33.53%) resulting from the maturity of the investment funds, sale of a marina property parcel and the 2015 Revenue bond retirement.
- Noncurrent assets decreased by \$499,845 (100%) which reflects the maturity of the Port's investment.
- Capital assets, net of depreciation decreased \$1,195,311 (2.85%) due from the sale of the land parcel overlooking the marina, along with the increase depreciation resulting from the new marina purchases in recent years.
- Current liabilities increase by \$8,483 (0.93%) over 2019, resulting from reclassification of PERS liability from non-current liability to current. 2020 also had a reduction of accounts payable at year end.
- Noncurrent liabilities decreased \$847,546 (6.24%) from reclassification of PERS payable, which is now considered a current liability since it is due within one year. It also reflects the change in net pension liability, as well as the newly reported asset retirement obligation for the Port's 6 underground storage tanks, per GASB 83 requirements.

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

	2020	2019
Operating Revenues		
Airport	99,452	151,990
Marina	3,439,532	3,169,874
Properties	896,342	968,198
Total Operating Revenues	4,435,326	4,290,062
Operating Expenses		
Operations	1,553,550	1,472,032
Maintenance	971,782	821,118
General & administrative	532,164	639,315
Depreciation and amortization	1,995,849	1,552,736
Total Operating Expenses	5,053,345	4,485,201
NET OPERATING INCOME (LOSS)	(618,019)	(195,139)
Non-operating revenues	1,117,697	715,831
Non-operating expense	(584,043)	(544,474)
Total Non-Operating	533,654	171,357
INCOME BEFORE CAPITAL AND OPERATING CONTRIBUTIONS	(84,365)	(23,782)
Capital contributions	744,628	1,389,068
INCREASE IN NET POSITION	660,263	1,365,286
NET POSITION - BEGINNING OF PERIOD	30,955,411	29,590,125
CHANGE IN ACCOUNTING PRINCIPLE (NOTE 15)	(277,500)	
NET POSITION - END OF PERIOD	\$ 31,338,174	\$ 30,955,411

Revenues:

- Total operating revenues increased by approximately \$145,264 (3.39%) over 2019 revenues. This is primarily a result of the following:
 - The airport revenues decreased \$52,538 (34.57%) from previous year, due to the reduction of passenger facility fees collected from commercial airline carriers resulting from the Covid-19 pandemic and travel restrictions.
 - The marina operating revenue represents the Port's main marina, Jensen's, and Shipyard Cove locations. Revenue increased by \$269,658 (8.51%) over the prior year. Fiscal year 2020 was the first full year of revenue collected from Shipyard Cove marina.
 - The Ports leased property revenues decreased by \$71,856 (7.42%) from the prior year. The decrease resulted from the interlocal agreement between the Port and San Juan Fire District # 3 for fire protection, and reduced profit sharing of Port tenants due to the Covid pandemic.

Expenses:

- 2020 operation expenses increased by approximately \$81,518 (5.54%) over 2019. This is due to pro-rated management wages and benefits allocated to airport operations in 2020.
- Maintenance expenses increased by \$150,664 (18.35%). Additional maintenance staff has been added for the in-house dock building necessary for dock replacement at Jensen's marina.
- 2020 general and administrative expenses decreased by \$107,151 (16.76%) resulting from management wages allocated to airport operations. Travel expenses were reduced in 2020 due to the Covid-19 restrictions, which prevented staff and commissioners from attending conferences in person.
- Depreciation and amortization expense increased by \$443,113 (28.54%) primarily due to the recent years' marina purchases.

Non-Operating Revenues:

- Non-operating revenue for the year ended December 31, 2020 totaled \$1,117,697 an increase of \$401,866 (56.14%). The Federal Aviation Administration (FAA) in the fiscal year 2020 offered a CARES grant to assist with operations and maintenance cost during the COVID-19 pandemic. This grant helps airports to sustain operations while commercial airline volume dropped, due to travel restrictions. Property Taxes collected totaled \$504,781 an increase of \$12,616 (2.56%) from 2019.

Non-Operating Expenses:

- Non-operating expenses for the year ended December 31, 2020 were \$584,043 an increase of \$39,569 (7.27%) over 2019. This amount represents bond interest expense and preliminary contamination studies.

Contributions:

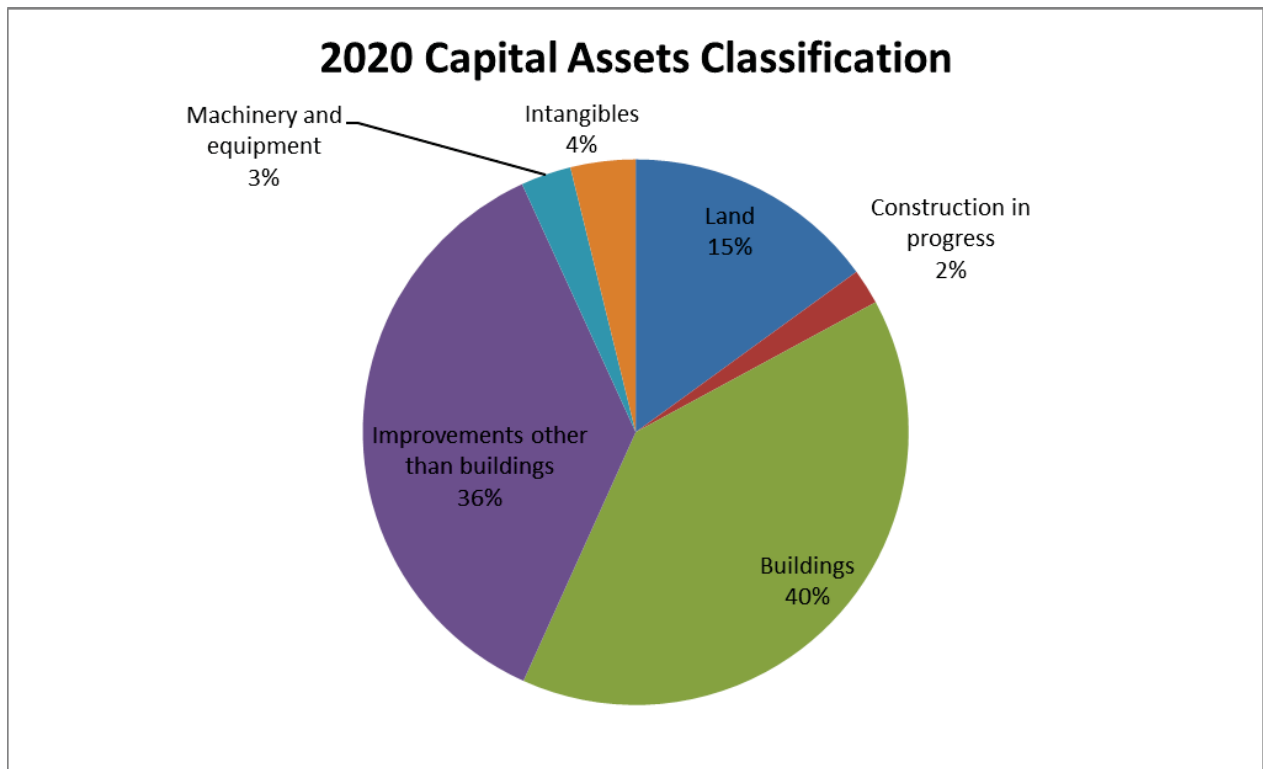
- Capital contributions are funding assistance for infrastructure projects and future development. In 2020 the contributions totaled \$744,628 a decrease of 644,440 (46.39%). The decrease represents less FAA projects at the airport.

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 capital assets as of December 31, 2020 totaled \$67,714,652. This is a net increase of \$743,520 (1.11%) over the prior year and results from capital asset purchases and improvement projects. The most significant purchase in 2020 was the new snowplow to be used to clear the airfield during inclement weather, along with the completion of the Airport Master Plan which increase the intangibles.

CAPITAL ASSETS	2020	2019
Land	\$ 10,157,278	\$ 10,531,692
Construction in progress	1,420,473	1,516,748
Buildings	26,848,760	26,735,343
Improvements other than buildings	24,656,342	24,625,565
Machinery and equipment	2,022,276	1,489,774
Intangibles	2,609,523	2,072,010
	<u>\$ 67,714,652</u>	<u>\$ 66,971,132</u>



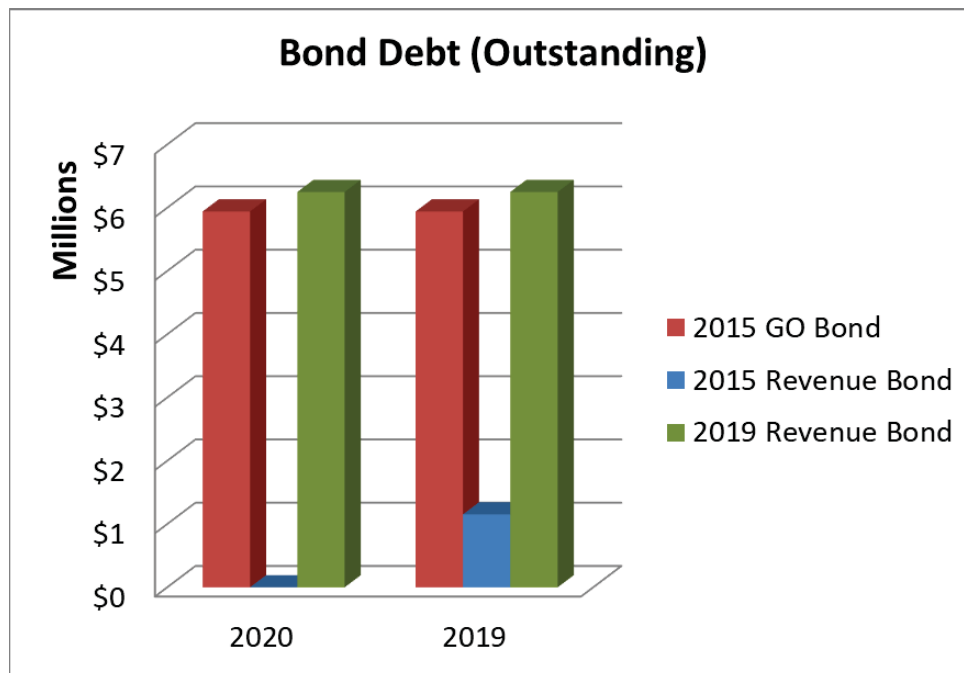
Major capital asset spending during 2020 included the following:

Airport Snow Removal Equipment	\$	337,390
Airport Pavement Maintenance	\$	173,284
Dock Construction	\$	165,013
Design of Marine Trades Center	\$	92,908
Front Street Boardwalk	\$	63,846
Mullis Pond Expansion	\$	37,003
Airport Master Plan Completion	\$	25,904
Jensen's Stormwater Equipment	\$	25,770

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 has two types of bond debt, general obligation, and revenue bond. As of December 31, 2020 the combined debt totaled \$12,192,543. The total debt decreased by \$1,152,820 (8.64%) with the final payment of the 2015 revenue bond. Of the remaining debt at year-end, \$5,942,543 was for the general obligation bond which funded the 2015 Marina Reconstruction Project, the 2019 revenue bond in the amount of \$6,250,000 was used for the purchase of Shipyard Cove Marina, as well as funding the final note payment for the purchase of Jensen's Marina and Shipyard.



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

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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, 2020

ASSETS

Current Assets

Cash and cash equivalents (Note 1)	\$	3,071,053
Cash restricted (Note 1 and Note 10)		414,829
Accounts receivables (net of allowance for uncollectible)		127,594
Property taxes receivable (Note 3)		9,923
Due from other governments		554,367
Prepaid expenses		88,851
Total Current Assets		4,266,617

Noncurrent Assets

Capital Assets Not Being Depreciated (Note 4)

Land		10,157,278
Construction in process (Note 4 and Note 5)		1,420,473
Total Capital Assets Not Being Depreciated		11,577,751

Capital Assets, being depreciated (Note 4)

Buildings		26,848,760
Improvements other than buildings		24,656,342
Machinery and equipment		2,022,276
Intangibles		2,609,523
Less: Accumulated depreciation and amortization		(27,028,566)
Total Net Capital Assets		29,108,335

TOTAL ASSETS \$ 44,952,703

DEFERRED OUTFLOWS BY RESOURCES

Deferred outflows - pension (Note 6)		164,721
Deferred outflows - asset retirement (Note 12)		15,000
Total Deferred Outflows of Resources		\$ 179,721

Table continued on next page

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION
For the Year Ended December 31, 2020

LIABILITIES

Current Liabilities

Accounts payable	180,769
Accrued payroll liabilities	59,168
Customer deposits	324,369
Current portion of long-term debt (Note 8)	207,243
PERS payable	40,025
Accrued compensated absences	76,920
Accrued interest payable	29,551
Total Current Liabilities	918,045

Noncurrent Liabilities

General obligation bond payable (Note 8)	5,942,543
Revenue bond payable (Note 8)	6,042,757
Net pension liability (Note 6)	442,760
Asset retirement obligation (Note 12)	300,000
Total Noncurrent Liabilities	12,728,060

TOTAL LIABILITIES	\$ 13,646,105
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DEFERRED INFLOWS BY RESOURCES

Deferred inflows - pension (Note 6)	148,145
Total Deferred Inflows of Resources	\$ 148,145

NET POSITION

Net investment in capital assets	28,618,545
Restricted for debt service (Note 10)	414,829
Unrestricted	2,304,800
Total Net Position	\$ 31,338,174

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 POSITION
For the Year Ended December 31, 2020

OPERATING REVENUES	
Airport	\$ 99,452
Marina	3,439,532
Property lease/ rental	896,342
Total Operating Revenues	4,435,326
 OPERATING EXPENSES	
General operations	1,553,550
Maintenance operations	971,782
General and administrative	532,164
Depreciation and amortization	1,995,849
Total Operating Expenses	5,053,345
 NET-OPERATING INCOME	 (618,019)
 NON-OPERATING REVENUES	
Taxes levied for general purpose	504,781
Grant Revenue	501,623
Investment income	17,615
Gain on disposal of assets	89,020
Miscellaneous taxes	3,798
Other	860
Total Non-Operating Revenues	1,117,697
 NON-OPERATING EXPENSES	
Interest expense	391,037
Environmental remediation (Note 11)	188,277
Election Expense	4,358
Other expenses	371
Total Non-Operating Expenses	584,043
 INCOME BEFORE CONTRIBUTIONS	 (84,365)
Contributions - Capital	744,628
 INCREASE IN NET POSITION	 660,263
Change in Accounting Principle (Note 14)	(277,500)
NET POSITION - BEGINNING OF PERIOD	30,955,411
NET POSITION - END OF PERIOD	\$ 31,338,174

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, 2020

CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from customers	4,483,840
Payments to suppliers	(1,306,444)
Payments to employees	(1,966,897)
Remediation payments	(188,277)
Operating grant receipts	347,584
Net cash provided (used) by operating activities	<u>1,369,806</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Property tax received	504,757
Other taxes received	3,798
Net cash provided (used) by non-financing activities	<u>508,555</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipt of capital grants	712,748
Purchase of capital assets	(1,183,182)
Proceeds from sale of capital assets	463,435
Payment of bonds	(1,152,820)
Interest paid on capital debt	(383,624)
Net cash provided (used) by capital and related financing activities	<u>(1,543,443)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest and dividends	19,912
Payments for investments	499,845
Net cash provided (used) by investing activities	<u>519,757</u>
Net increase (decrease) in cash and cash equivalents	857,375
Cash and cash equivalents as of January 1	2,628,507
Cash and cash equivalents as of December 31	<u>\$ 3,485,882</u>
Reconciliation to Net Position:	
Cash and Cash Equivalents	\$ 3,071,053
Restricted Cash and Cash Equivalents	414,829
Total Cash and Cash Equivalents	<u>\$ 3,485,882</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, 2020

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

Operating income (loss)	\$ (618,019)
Adjustments to reconcile operating income (loss):	
Depreciation and amortization	1,995,849
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	(18,846)
Increase (decrease) in accounts payable	(39,845)
Increase (decrease) in customer deposits	67,360
Decrease (increase) in prepaid items	(13,242)
Increase (decrease) in other payables	(3,045)
Increase (decrease) in pension accounts	(154,984)
Remediation payments	(188,277)
Other receipts	347,584
Other payments	(4,729)
Total adjustments	<u>1,987,825</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,369,806</u></u>
Noncash transactions	
Accounts payable change of financing capital acquisitions	\$ 15,278

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

PORT OF FRIDAY HARBOR
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Reporting Entity

The Port 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 providing marinas, an airport, and property lease/rental to the general public. The Port is supported primarily through user charges, property leases, tariffs and fees. The Port is governed by a three-member elected commission board.

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

B. Basis of Accounting and Reporting

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

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

All assets and all liabilities (whether current or noncurrent) associated with the Port's activity are included in the statement of net position. Net position is segregated into net investment in capital assets, and restricted and unrestricted components of net position. Operating statement present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows on a separate statement that presents its operating, noncapital financing, capital and related financing, and investment activities.

The Port distinguishes between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to marina and airport customers, and lease activity. Operating expenses for the Port include general operations, maintenance and administrative, and depreciation. Revenues and expenses not meeting these definitions are reported as nonoperating revenue 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. These are classified as cash and cash equivalents on the statement of net position. At December 31, 2020 the Treasurer was holding \$3,071,053 in short term residual investments of surplus cash. For purposes of the statement of cash flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Asset Retirement Obligation

The asset retirement obligations (ARO) and deferred outflows of resources related is the liability associated with the retirement of Port owned capital assets that have substantial cost to the Port. The obligation will be paid from operating income; no assets have been set aside to fund this obligation. See Note 12 for more information.

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

4. 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. Accounts receivable has been recorded net of estimated uncollectible amounts. As of December 31, 2020, the customer accounts receivable was \$127,594.

Taxes receivable consists of property taxes and related interest and penalties. (See Note 3, *Property Taxes*)

5. 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 2019 Revenue Bond resolutions, a separate restricted account is required. At December 31, 2020 the Treasurer was holding \$414,829 of restricted assets.

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

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

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

involved, the federal and state governments could retain an equity interest in these assets.

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 accumulated depreciation related to the asset sold, and the net gain or loss on disposition is credited and charged to income.

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

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 20 years
Other Improvements	10 to 50 years

8. Deferred Outflows/Inflows of Resources

A Deferred Outflows of Resources is a consumption of net position that are applicable to future periods. Deferred Inflow of Resources are acquisitions of net position in one period that are applicable to future periods. These are distinguished from assets and liabilities in the statement of net position. The Port recognizes Deferred Outflows and Deferred Inflows related to pension liability (see Note 6) and asset retirement obligation (see Note 12). As of December 31, 2020, the Port recorded deferred outflows of resources of \$179,721 and deferred inflows of resources of \$148,145.

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 of accrual and is payable upon separation, retirement, or death. The accrued compensated absences balance on December 31, 2020, was \$76,920.

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 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 \$40,025 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 conclude at the end of 2021.

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

NOTE 2 – DEPOSITS AND INVESTMENTS:

A. Treasury Function:

At the direction of the Port Auditor, the San Juan County Treasurer (the Treasurer) is responsible for execution and administration of the Port's deposit and investment accounts, based on the Port's management and investment decisions.

B. Deposits:

The Port has established direct banking services with Banner Bank. The Port also maintains deposits in the Local Government Investment Pool (LGIP) managed by the Washington State Treasurer. The Port's deposits are covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The Port has not experienced any losses in its deposit accounts. All bank deposits as well as deposits in the LGIP, are considered cash equivalents and are reported at cost.

C. 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. As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of state and local government, or certificate of deposits with PDPC qualified banks and savings and loan institutions.

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 Net Position.

Investments are subject to the following risks:

Interest Rate Risk – Interest rate risk is the risk the Port may face should interest rate variances affect the fair value of investments. 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.

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.

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, Banner 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.

D. Investment in Local Government Investment Pool (LGIP)

The Port is a participant in the Local Government Investment Pool 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>.

E. 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, 2020, the Port had no investments measured at fair value.

F. Change in Fair Value of Investments

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.

As of December 31, 2020	
Cash and Cash Equivalents	
Cash on Hand	\$ 299,898
LGIP	3,185,984
Total Cash and Cash Equivalents	\$ 3,485,882
Investments	
None	\$ -
Total Cash and Investments	\$ 3,485,882

NOTE 3 – PROPERTY TAXES:

As of December 31, 2020, the Port had the following investments measured at amortized cost:

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

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 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 2020 was \$.1426 per \$1,000 on assessed valuation of \$3,532,098,091 for a total regular tax of \$505,000. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION:

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.

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, 2020 was as follows:

Description	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
Capital assets, not being depreciated:				
Land	\$ 10,531,692	\$ -	\$ (374,414)	\$ 10,157,278
Construction in process	1,516,749	972,534	(1,068,810)	1,420,473
Total capital assets, not being depreciated	12,048,441	972,534	(1,443,224)	11,577,751
Capital assets being depreciated				
Buildings	26,735,343	113,417	-	26,848,760
Improvements other than buildings	24,625,566	30,776	-	24,656,342
Machinery and equipment	1,489,774	582,023	(49,521)	2,022,276
Intangible assets	2,072,010	537,513	-	2,609,523
Total capital assets being depreciated	54,922,693	1,263,729	(49,521)	56,136,901
Less accumulated depreciation for :				
Buildings	(8,192,684)	(980,529)	-	(9,173,213)
Improvements other than buildings	(14,992,251)	(701,293)	-	(15,693,544)
Machinery and equipment	(1,070,932)	(58,674)	49,521	(1,080,085)
Intangible assets	(833,871)	(247,853)	-	(1,081,724)
Total accumulated depreciation	(25,089,738)	(1,988,349)	49,521	(27,028,566)
Total capital assets being depreciated, net	29,832,955	(724,620)	-	29,108,335
Total capital assets, net	\$ 41,881,396	\$ 247,914	\$ (1,443,224)	\$ 40,686,086

NOTE 5 – CONSTRUCTION COMMITMENTS:

The Port of Friday Harbor has active construction projects as of December 31, 2020, construction commitments are as follows:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
Mullis Pond Expansion	\$ 897,151	\$ 47,236
Airport Pavement Maintenance	173,284	774,094
Dock Construction	165,013	78,000
Design of Marine Trade Center	92,908	172,342
Front Street Boardwalk	68,798	38,192
Jensen / Shipyard Cove Road Access	10,934	5,246
Shipyard Cove Self-Work Bays	9,458	16,374
Auxiliary Holding Tank	2,200	137,800
	<u>\$ 1,419,746</u>	<u>\$ 1,269,284</u>

NOTE 6 – PENSION PLANS:

The following table represents the aggregate pension amounts for all plans for the year 2020:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 442,760
Deferred outflows of resources	164,721
Deferred inflows of resources	148,145
Pension expense/expenditures	57,571

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

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 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	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 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2020		
PERS Plan 2/3	7.92%	7.41%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.41%
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

The Port of Friday Harbor’s actual PERS plan contributions were \$65,080 to PERS Plan 1 and \$107,444 to PERS Plan 2/3 for the year ended December 31, 2020.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, 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 Pub.H-2010 tables, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates the MP-2017 improvement scale. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- The demographic assumptions were updated based on the results of the latest demographic experience study. This study is completed every six years and includes updates to a wide range of assumptions, including rates of termination, retirement, and mortality.
- This valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio (TAP) annuities when determining contribution rates and funded status.

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. Based on OSA’s assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2020, 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 of Friday Harbor’s proportionate share* of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the Port of Friday Harbor’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	\$ 377,391	\$ 301,296	\$ 234,934
PERS 2/3	\$ 880,226	\$ 141,464	\$ (466,907)

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, 2020, Port of Friday Harbor reported a total pension liability of \$442,760 for its proportionate share of the net pension liabilities as follows:

Plan	Liability
PERS 1	\$ 301,296
PERS 2/3	141,464

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.00794%	0.00853%	0.00059%
PERS 2/3	0.01026%	0.01106%	0.00080%

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

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the Port of Friday Harbor recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 41,680
PERS 2/3	15,891
TOTAL	57,571

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the Port of Friday Harbor 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	\$ -	\$ (1,678)
Contributions subsequent to the measurement date	33,281	-
TOTAL	\$ 33,281	\$ (1,678)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,642	\$ (17,729)
Net difference between projected and actual investment earnings on pension plan investments	-	(7,184)
Changes of assumptions	2,015	(96,632)
Changes in proportion and differences between contributions and proportionate share of contributions	24,248	(24,922)
Contributions subsequent to the measurement date	54,535	
TOTAL	\$ 131,440	\$ (146,467)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,642	\$ (17,729)
Net difference between projected and actual investment earnings on pension plan investments	-	(8,862)
Changes of assumptions	2,015	(96,632)
Changes in proportion and differences between contributions and proportionate share of contributions	24,248	(24,922)
Contributions subsequent to the measurement date	87,816	-
TOTAL	\$ 164,721	\$ (148,145)

Deferred outflows of resources related to pensions resulting from Port of Friday Harbor’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. 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
2021	\$ (7,613)	\$ (62,084)
2022	(239)	(17,416)
2023	2,323	(870)
2024	3,851	14,467
2025	-	(1,038)
Thereafter	-	(2,621)

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, 2020, 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:

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

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 \$800 million 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.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

NOTE 8 – LONG-TERM DEBT:

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 allowed the Port to pay off the 2015 Revenue Bond. This bond matures in 2040.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/20
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 allowed the Port to pay off the Revenue Bond first, which was 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
2021	\$ -	\$ 195,815
2022	-	195,815
2023	-	195,815
2024	-	196,352
2025	-	195,815
2026-2030	1,669,663	873,082
2031-2035	1,963,610	579,138
2036-2040	2,309,270	233,476
Total	\$ 5,942,543	\$ 2,665,308

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, 2020, restricted assets contain \$414,829 in reserves as required by bond indentures.

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 12/31/20
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:

2019 Revenue Bond

Year Ending December 31	Principal	Interest
2021	\$ 207,243	\$ 190,104
2022	210,404	183,801
2023	213,613	177,401
2024	216,870	171,372
2025	220,177	164,307
2026-2030	1,152,288	719,407
2031-2035	1,242,871	538,627
2036-2039	2,786,534	291,315
Total	\$ 6,250,000	\$ 2,436,333

Changes in Long-Term Liabilities

During the year ended December 31, 2020 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2020	Additions	Reductions	Ending Balance 12/31/2020	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	\$ 1,152,820	\$ -	\$ (1,152,820)	\$ -	\$ -
Bond Payable: 2019 Revenue Bond	\$ 6,250,000	\$ -	\$ -	\$ 6,250,000	\$ 207,243
Net Pension Liability	\$ 405,125	\$ 37,635	\$ -	\$ 442,760	\$ -
PERS Payable	\$ 80,058	\$ -	\$ (40,032)	\$ 40,026	\$ 40,026
Total long-term liabilities	\$ 13,830,546	\$ 37,635	\$ (1,192,852)	\$ 12,675,329	\$ 247,269

- 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.
- The 2015 Revenue Bond was paid off in 2020. The Port used funds from the reserve account and refunded the reserve over the 2020 fiscal year.
- The 2019 Revenue bond was structured as interest only, until June 2021.

- PERS Payable of \$40,026 represents the purchase of service credits retroactive to the employees' original hire date at the time the Port entered the Public Employees Retirement State Plan. The final payment will be made December 2021 which is now considered short-term liability.

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 several 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:

Net Position is segregated into three components: invested in capital assets, restricted and unrestricted. The Port has a restricted component of net position in the amount of \$414,829 as required by the 2019 revenue bond resolutions. The Port is required to have six months (6) reserve restricted for debt service. As of 2020, the current restricted reserve meets these requirements.

NOTE 11 – POLLUTION REMEDIATION OBLIGATION:

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.

We have negotiated 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.

As of December 31, 2020 the RIFS is ongoing, but not completed. Upon completion of the feasibility study, the Port will be able to assign a probable clean-up liability value.

NOTE 12 – ASSET RETIREMENT OBLIGATION:

In November 2016, the Governmental Accounting Standard Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset.

The Port owns six (6) 10,000-gallon underground storage tanks that were installed in 1983. Four at the marina and two at the airport. The fueling facilities are operated by private businesses. The operators are required to monitor the tanks for leakage. The Port performs annual compliance testing including tank monitor certification, line test, and leak detector test in compliance with Department of Ecology. A galvanic cathodic protection evaluation is done annually as well. All six tanks are insured with a storage tank pollution policy.

The Port has chosen to measure the ARO based on an estimate of \$50,000 per tanks, for a total amount of \$300,000. This amount will be reviewed annual to account for the effects of inflation, deflation and to consider any factors significantly affecting the estimate, such as, changes in technology, changes in legal or regulatory requirements, and changes to the type of equipment or services that may be used to decommission the underground storage tanks.

GASB 83 is retroactive to the date of the internal obligating event in 1983 and is effective over the life of the underground storage tank which has an estimated life of 40 years. Upon retirement of the underground storage tanks, the Port will fund the decommissioning out of current reserves. There are no assets restricted for payment of this liability.

NOTE 13 – ACCOUNTING AND REPORTING CHANGES:

The Port of Friday Harbor implement GASB Statement No. 83, *Certain Asset Retirement Obligations*, in 2020. The asset retirement obligation (ARO) and deferred outflows of resources related is the liability associated with the retirement of Port owned capital assets that have a substantial cost to the Port. The Port has recorded a Change in Accounting Principles of \$277,500. See Note 12 for more detail.

NOTE 14 – COVID-19 PANDEMIC:

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 known as 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, cancelling public events, and limiting public and private gatherings and restricting business operations, travel, and non-essential activities.

Due to these closures, many businesses in the community as well as the airline industry have experienced negative financial impacts. The Port leases space to many businesses that have been affected by the closures, and many have requested and been granted rent deferrals. The Port has incurred additional costs to maintain and secure the facilities 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.

Note 15 – SUBSEQUENT EVENT:

On February 14, 2021 San Juan Island experienced a snowstorm considered a CAT (Catastrophe) number (CAT15) which caused the Jensen marina boathouse to collapse due to excessive snow load and winds generated by the storm. After the event, the Port was issued emergency authorization from the Army Corp of Engineers to demolish and replace the damaged marina. Rebuild analysis is currently being performed by insurance engineers. Port staff is performing an independent estimate for comparison.

REQUIRED SUPPLEMENTARY INFORMATION

Port of Friday Harbor

Schedule of Proportionate Share of the Net Pension Liability
PERS 1

As of June 30, 2020

Year Ended June 30	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Employer's proportion of the net pension liability (asset)	0.009778%	0.008586%	0.008813%	0.007815%	0.007770%	0.007944%	0.008534%
Employer's proportionate share of the net pension liability	\$ 492,571	449,128	473,300	370,828	347,011	305,475	301,296
Employer's covered payroll	\$ 1,068,197	984,029	1,047,823	985,579	1,077,922	1,120,861	1,356,613
Employer's proportionate share of the net pension liability as a percentage of covered payroll	46.11%	45.64%	45.17%	37.63%	32.19%	27.25%	22.21%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%

REQUIRED SUPPLEMENTARY INFORMATION

Port of Friday Harbor

Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3

As of June 30, 2020

Year Ended June 30	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Employer's proportion of the net pension liability (asset)	0.012589%	0.011090%	0.011308%	0.010054%	0.010023%	0.010259%	0.011061%
Employer's proportionate share of the net pension liability	\$ 254,469	396,252	569,349	349,328	171,134	99,650	141,464
Employer's covered payroll	\$ 1,068,197	984,029	1,047,823	985,579	1,077,922	1,120,861	1,356,613
Employer's proportionate share of the net pension liability as a percentage of covered payroll	23.82%	40.27%	54.34%	35.44%	15.88%	8.89%	10.43%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%

REQUIRED SUPPLEMENTARY INFORMATION

Port of Friday Harbor
 Schedule of Employer Contributions
 PERS 1
 For the Fiscal Year Ended December 31, 2020

Year Ended June 30	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Statutorily or contractually required contributions	\$ 42,456	44,709	50,196	48,573	57,714	60,426	61,850
Contributions in relation to the statutorily or contractually required contributions	\$ (42,456)	(44,709)	(50,196)	(48,573)	(57,714)	(60,426)	(61,850)
Contribution deficiency (excess)	-	-	-	-	-	-	-
Covered payroll	\$ 1,031,282	999,591	1,052,322	990,279	1,139,780	1,223,817	1,353,176
Contributions as a percentage of covered payroll	4.12%	4.47%	4.77%	4.90%	5.06%	4.94%	4.57%

REQUIRED SUPPLEMENTARY INFORMATION

Port of Friday Harbor
 Schedule of Employer Contributions
 PERS 2/3
 For the Fiscal Year Ended December 31, 2020

Year Ended June 30	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Statutorily or contractually required contributions	\$ 52,526	57,428	65,560	68,240	85,485	94,579	101,901
Contributions in relation to the statutorily or contractually required contributions	(\$52,526)	(57,428)	(65,560)	(68,240)	(85,485)	(94,579)	(101,901)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-
Covered payroll	\$ 1,031,282	999,591	1,052,322	990,279	1,139,780	1,223,817	1,353,176
Contributions as a percentage of covered payroll	5.09%	5.75%	6.23%	6.89%	7.50%	7.73%	7.53%

Port of Friday Harbor

Notes to Required Supplemental Information - Pension

As of December 31
Last Seven 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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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	8/31/2020	12.86% *
9/1/2020	current	12.97%

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

PERS 2/3

<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	8/31/2020	12.86%
9/1/2020	current	12.97%

* 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, 2020**

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 Recreation and Conservation Office)	Clean Vessel Act	15.616	719-331	52,820	-	52,820	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0152-34- 2017	-	23,314	23,314	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0152-35- 2019	-	337,704	337,704	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0152-36- 2020	-	223,544	223,544	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - CARES Act	20.106	3-53-0152-37- 2020	-	447,004	447,004	-	1, 2
Total CFDA 20.106:				-	1,031,566	1,031,566	-	
Total Federal Awards Expended:				52,820	1,031,566	1,084,386	-	

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, 2020

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.

ABOUT THE STATE AUDITOR'S OFFICE

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

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In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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