Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Friday Harbor

For the period January 1, 2025 through December 31, 2025

Published September 30, 2026

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Office of the Washington State Auditor
Pat McCarthy

September 30, 2026

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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TABLE OF CONTENTS

Schedule of Findings and Questioned Costs 4

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 6

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance 8

Independent Auditor's Report on the Financial Statements 11

Financial Section 15

About the State Auditor's Office 62

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Friday Harbor
January 1, 2025 through December 31, 2025

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.

ALN	Program or Cluster Title
20.106	COVID-19 – Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs
20.106	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $1,000,000.

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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, 2025 through December 31, 2025

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, 2025, 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 25, 2026.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 25, 2026

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, 2025 through December 31, 2025

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Port of Friday Harbor, with the types of compliance requirements identified as subject to audit 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, 2025. The Port's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Port's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Port's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Port's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Port's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Port's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Port's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



Pat McCarthy, State Auditor

Olympia, WA

September 25, 2026

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Friday Harbor
January 1, 2025 through December 31, 2025

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Port of Friday Harbor, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Port of Friday Harbor, as of December 31, 2025, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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. 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 supplementary information 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2026 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 the effectiveness of the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

September 25, 2026

FINANCIAL SECTION

Port of Friday Harbor
January 1, 2025 through December 31, 2025

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2025

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2025
Statement of Revenues, Expenses and Changes in Fund Net Position – 2025
Statement of Cash Flows – 2025
Notes to Financial Statements – 2025

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2025
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2025
Notes to Required Supplemental Information – Pension – 2025

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2025
Notes to the Schedule of Expenditures of Federal Awards – 2025

PORT OF FRIDAY HARBOR

Management's Discussion and Analysis

Year Ended December 31, 2025

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, 2025, with selected comparative information for the year ended December 31, 2024. 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 the Port's 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 $47,063,609 (reported as total fund net position). Total fund net position increased by $5,200,071 (12.42%) in comparison with the prior year.
- Total assets increased by $7,558,545 (12.18%).
- Total liabilities increased by $1,610,311 (11.38%).

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				
	2025	2024 Restated*	Change	% Change
Current and restricted assets	$ 11,134,511	$ 9,415,589	$ 1,718,922	18.26%
Capital assets, net	50,998,304	46,018,117	4,980,187	10.82%
Noncurrent assets	7,082,369	6,600,297	482,072	7.30%
Total Assets	69,215,184	62,034,003	7,181,181	11.58%
Total Deferred Outflows of Resources	722,789	669,219	53,570	8.00%
Current liabilities	2,489,919	1,539,599	950,320	61.73%
Noncurrent liabilities	13,272,598	12,612,607	659,991	5.23%
Total Liabilities	15,762,517	14,152,206	1,610,311	11.38%
Total Deferred Inflows of Resources	7,111,847	6,687,478	424,369	6.35%
Net Position				
Net invested in capital assets	37,547,377	33,797,744	3,749,633	11.09%
Restricted for debt service	486,560	466,852	19,708	4.22%
Restricted for pensions	456,949	439,301	17,648	4.02%
Unrestricted	8,572,723	7,159,641	1,413,082	19.74%
Total Net Position	**$ 47,063,609**	**$ 41,863,538**	**$ 5,200,071**	**12.42%**

Assets:

- Current and restricted assets reflect an increase of $1,718,922 (18.26%), primarily a result of an increase in cash and cash equivalents along with insurance receivable for the final payment related to the Jensen collapse and the Surety claim for the airport contractor default in 2021.
- Capital assets, net of depreciation increased by $4,980,187 (10.82%). This increase is a result due to the completion of several airport projects, and the continuing projects of the construction of hangar 80 and the south apron expansion.
- Noncurrent assets increased by $482,072 (7.30%), which represents the Ports Net Pension Asset and long-term lease receivables.

Liabilities:

- Current liabilities increased by $950,320 (61.73%) over 2024, this is primarily related to increases in balances of accounts payable, customer deposits and accrued compensated absences.
- Noncurrent liabilities increased by $659,991 (5.23%). The primary increase resulted from the Port acquisition of the property adjacent to Jackson's Beach, known as the Cannery.

Overall, total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by $47,063,609 (reported as total net position). This is an increase of $5,200,071 (12.42%).

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 Changes in Fund Net Position

	2025	2024	Change	% Change
Operating Revenues				
Airport	$ 242,280	$ 208,994	$ 33,286	15.93%
Boatyard	164,256	175,666	(11,410)	-6.50%
Marina	5,270,578	4,671,577	599,001	12.82%
Properties	1,364,809	1,266,749	98,060	7.74%
Total Operating Revenues	7,041,923	6,322,986	718,937	11.37%
Operating Expenses				
Operations	3,105,158	2,272,804	832,354	36.62%
Maintenance	1,737,236	1,592,689	144,547	9.08%
General and administrative	881,416	689,385	192,031	27.86%
Depreciation and amortization	2,265,586	2,184,163	81,423	3.73%
Total Operating Expenses	7,989,396	6,739,042	1,250,354	18.55%
NET OPERATING INCOME (LOSS)	(947,473)	(416,056)	(531,417)	127.73%
Non-operating revenues	3,085,252	1,846,481	1,238,771	67.09%
Non-operating expense	(1,111,370)	(1,173,673)	62,303	-5.31%
Total Non-Operating	1,973,882	672,808	1,301,074	193.38%
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,026,409	256,753	769,656	299.77%
Capital contributions	4,173,662	2,730,556	1,443,106	52.85%
INCREASE IN NET POSITION	5,200,071	2,987,309	2,212,762	74.07%
NET POSITION - BEGINNING OF PERIOD	41,863,538	38,987,886	2,875,652	7.38%
CHANGE IN ACCOUNTING PRINCIPLE	-	(111,657)	111,657	-100.00%
NET POSITION - END OF PERIOD	**$ 47,063,609**	**$ 41,863,538**	**$ 5,200,071**	**12.42%**

Revenues:

Total operating revenues increased by approximately $718,937 (11.37%) over 2024 revenues. This is primarily a result of the following:

- The airport revenues increased by $33,286 (15.93%) from the previous year, due to an increase in user fees such as auto parking, landing fees and passenger facility fees collected from commercial airline carriers.
- The boatyard revenue decreased by $11,410 (6.50%). This decrease reflects the reduction in lifts and boats stored in the yard.
- The marina operating revenue represents the Port's Main Marina, Jensen Marina, and Shipyard Cove locations. Revenue increased by $599,001 (12.80%) over the prior year. The Port's waitlist remains steady and liveaboard availability is at capacity.
- In 2025 the Port's properties revenue increased by $98,060 (7.74%). Upon the expiration of several of our oldest land leases, with significant lessee improvements, the Port executed new 25-year leases that allowed the infrastructure to remain in place. In 2025 we expanded the footprint of one of the Port's major lease holders, and profit sales share of the Port's anchor restaurant tenant.

Expenses:

2025 total operating expenses including depreciation increased by $1,250,354 (18.55 %) over 2024.

- Operation expenses increased by $832,354 (36.62%). The Port had engineering costs associated with the design of electric vessels related to the Port Electrification Grant that was awarded in 2025.
- Maintenance expenses increased by $144,547 (9.08%) over 2024. Mostly related to dock maintenance and equipment repairs.
- 2025 general and administrative expenses increased by $192,031 (27.86%) due primarily to legal fees.
- Depreciation and amortization expenses increased by $81,423 (3.73%)

Non-Operating Revenues:

Non-operating revenue for the year ended December 31, 2025, totaled $3,085,252 an increase of $1,238,771 (67.09%).

- The primary increase in non-operating revenue is attributed to booking the final insurance receivable from the Jensen Marina collapse and bond surety from the airport contractor default.
- Property Taxes levied in 2025 totaled $565,357, an increase of $9,000 (1.65%) allowable levy increases and new construction allowance.
- 2025 intergovernmental grants include the Federal Aviation Administration (FAA) which concluded their support of the Covid-19 pandemic recovery grants to assist with airport operations and maintenance. The Port also participates in the Washington State Parks Clean Vessel Program that helps support the sewage disposal in the marina. The Department of Ecology contributes funds towards the costs related to the remedial investigation, identifying contaminated materials at the Jensen Boatyard. The total of these grants was $804,792 in 2025. This amount is a decrease from the prior year in the amount of $94,644 (10.52%), mostly due to Covid-19 grant expiration.
- Insurance recoveries in 2025 were $1,414,210. This concludes the claims for the Jensen marina collapse and the surety claim for the contractor default at the airport.

Non-Operating Expenses:

Non-operating expenses for the year ending December 31, 2025, were $1,111,370, a decrease of $62,303 (5.31%) over 2024. This decrease primarily relates to interest expense.

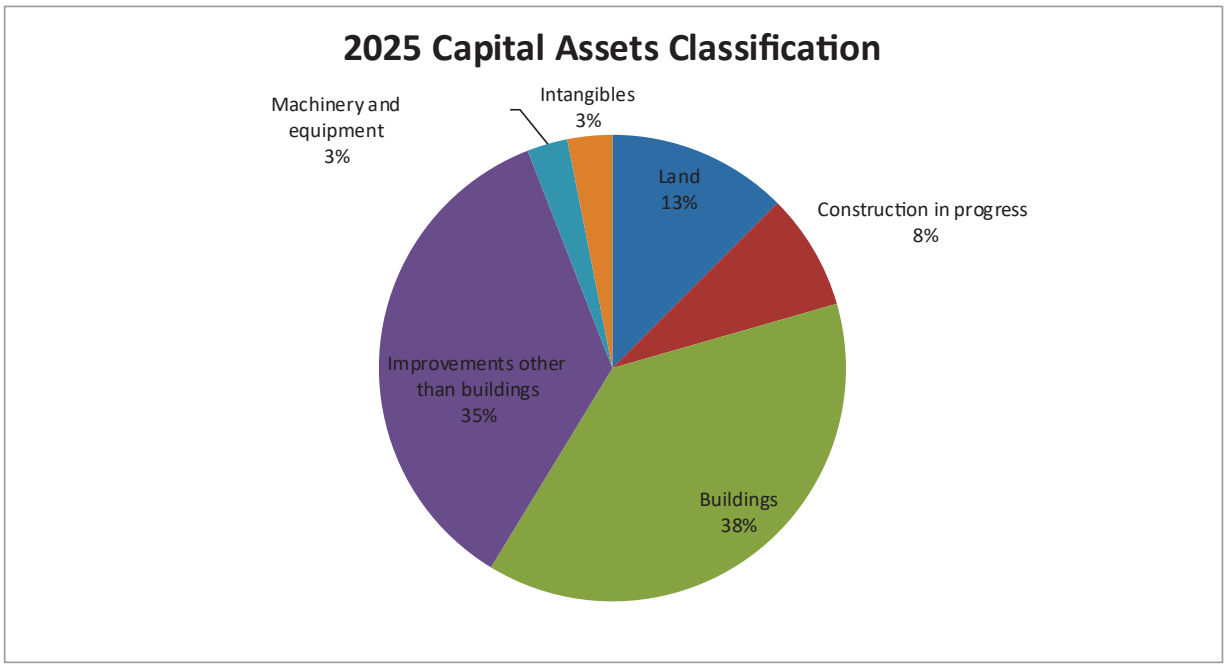
Contributions:

Capital contributions are funding assistance for infrastructure projects and future development. In 2025 the contributions totaled $4,173,662, an increase of $1,443,106 (52.85%) over 2024. The primary contributions were received by FAA for airport projects.

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, 2025, totaled $86,876,104. This is a net increase of $7,245,773 (9.10%) over the prior year.



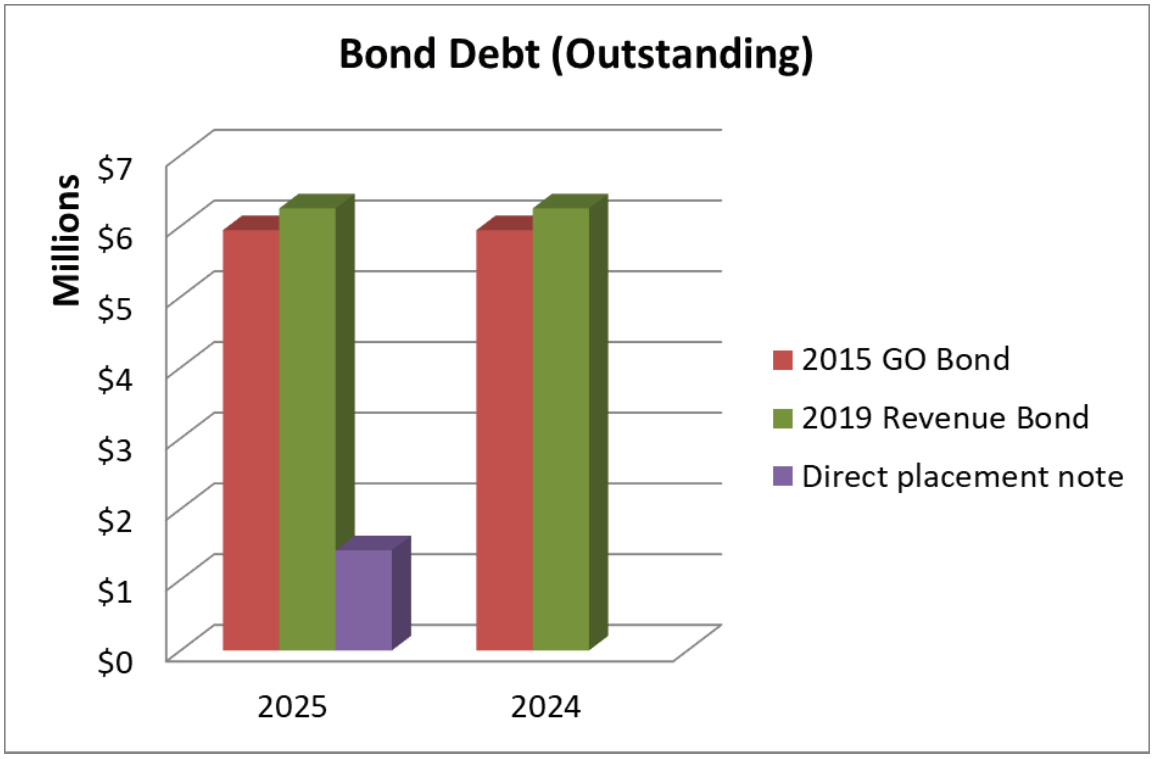
Major capital asset spending during 2025 included the following:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
Airport SW Development Environmental Assessment	$605,321	$346,732
Southwest Apron Expansion & Fueling Site Development	1,451,666	2,243,457
Hangar 80	2,631,568	733,750
Airfield Lighting and Signage	73,474	1,031,596
Port Administrative Building	93,925	1,406,075
Marina Parking Lot Solar Canopy	236,731	213,269
	$ 5,092,685	$ 5,974,879

Additional information on the Port's capital assets activity may be found in Notes 4 (Capital Assets) and 5 (Construction Commitments) 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, 2025, the combined debt totaled $11,876,718. The total debt decreased by $271,191 (2.23%), due to regularly scheduled principal payments.



In 2025 the Port purchased the property known as the Cannery. This property is adjacent to Jackson's Beach. This purchase is made with an interest free 15-year note carried by the owner. As of December 31st the remaining balance of the note is $1,416,000.

The total bonds and direct placement note increases the total debt by $1,144,809 (9.42%).

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
As of December 31, 2025

ASSETS		
Current Assets		
Cash and cash equivalents (Note 1)	$	7,480,408
Cash and cash equivalents restricted (Note 1 and Note 10)		863,924
Accounts receivables (net of allowance for uncollectible)		60,495
Lease receivable - current (Note 1 and Note 11)		329,714
Other receivable		1,106,200
Property taxes receivable (Note 3)		13,190
Due from other governments		948,885
Inventories		85,579
Prepaid expenses		246,116
Total Current Assets		11,134,511
Noncurrent Assets		
Capital Assets Not Being Depreciated (Note 4)		
Land		11,252,121
Construction in process (Note 4 and Note 5)		7,002,036
Total Capital Assets Not Being Depreciated		18,254,157
Capital Assets, being depreciated (Note 4)		
Buildings		32,747,463
Improvements other than buildings		30,739,085
Machinery and equipment		2,440,176
Intangibles		2,695,223
Less: Accumulated depreciation and amortization		(35,877,800)
Total Net Capital Assets		32,744,147
Other Noncurrent Assets		
Lease Receivable		6,625,420
Net Pension Assets		456,949
Total Noncurrent Assets		7,082,369
TOTAL ASSETS	$	69,215,184

Table continued on next page

DEFERRED OUTFLOWS BY RESOURCES		
Deferred outflows related to Pensions (Note 6)	$	642,834
Deferred outflows related to Asset Retirement obligations (Note 12)		79,955
Total Deferred Outflows of Resources	$	722,789
LIABILITIES		
Current Liabilities		
Accounts payable		739,443
Customer deposits		377,364
Current portion of long-term debt (Note 8)		684,060
Accrued compensated absences short term (Note 1.D.9)		273,607
Accrued interest payable		384,738
Total Current Liabilities		2,459,212
Noncurrent Liabilities		
General obligation bond payable (Note 8)		5,629,809
Revenue bond payable (Note 8)		5,658,849
Finan Note Payable (Note 8)		1,320,000
Accrued compensated absences long term (Note 1.D.9)		104,449
Net pension liability (Note 6)		109,835
Asset retirement obligation (Note 12)		480,363
Total Noncurrent Liabilities		13,303,305
TOTAL LIABILITES	$	15,762,517
DEFERRED INFLOWS BY RESOURCES		
Deferred pension inflows (Note 6)		156,713
Deferred lease inflows (Note 1.D.4)		6,955,134
Total Deferred Inflows of Resources	$	7,111,847
NET POSITION		
Net investment in capital assets		37,547,377
Restricted for debt service (Note 10)		486,560
Restricted for pensions		456,949
Unrestricted		8,572,723
Total Net Position	**$**	**47,063,609**

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

PORT OF FRIDAY HAROR

STATEMENT OF REVENUE, EXPENSES & CHANGES IN FUND NET POSITION

For the Year Ended December 31, 2025

OPERATING REVENUES		
Airport	$	242,280
Boatyard		164,256
Marina		5,270,578
Property lease/ rental		1,364,809
Total Operating Revenues		7,041,923
OPERATING EXPENSES		
General operations		3,105,158
Maintenance operations		1,737,236
General and administrative		881,416
Depreciation and amortization		2,265,586
Total Operating Expenses		7,989,396
NET-OPERATING INCOME		**(947,473)**
NON-OPERATING REVENUES		
Taxes levied for general purpose		565,357
Intergovernmental grants		804,792
Investment income		294,618
Insurance recoveries		1,414,210
Miscellaneous taxes		3,275
Community donations		3,000
Total Non-Operating Revenues		3,085,252
NON-OPERATING EXPENSES		
Interest expense		375,538
Environmental remediation (Note 11)		389,801
Cost of goods sold		320,146
Other expenses		25,885
Total Non-Operating Expenses		1,111,370
INCOME BEFORE CAPITAL CONTRIBUTIONS		**1,026,409**
Capital Contributions		4,173,662
INCREASE IN NET POSITION		5,200,071
NET POSITION - BEGINNING OF PERIOD		42,222,763
ERROR CORRECTION		(359,225)
NET POSITION - END OF PERIOD	**$**	**47,063,609**

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

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2025

CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from customers	$ 6,511,217
Payments to suppliers	(3,721,955)
Payments to employees	(1,799,510)
Operating grant receipts	727,320
Surety Recovery	1,414,210
Other receipts	3,000
Other payments	(221,843)
Pollution remediation payments	(389,801)
Net cash provided (used) by operating activities	2,522,638
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Proceeds from unrestricted taxes	563,609
Proceeds from miscellaneous taxes	3,275
Net cash provided (used) by non-financing activities	566,884
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipt of capital grants	3,706,182
Purchase of capital assets	(5,857,533)
Payment of bonds	(350,144)
Interest paid on capital debt	(384,562)
Net cash provided (used) by capial and related financing activitie	(2,886,057)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest and dividends	294,618
Net cash provided (used) by investing activities	294,618
Net increase (decrease) in cash and cash equivalents	498,083
Beginning cash, restated	7,846,249
Cash and cash equivalents as of December 31	**$ 8,344,332**
Reconciliation to Net Position:	
Cash and cash equivalents	$ 7,480,408
Restricted cash and cash equivalents	863,924
Total cash and cash equivalents	$ 8,344,332

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

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2025

RECONCILIATION OF OPERATIONG INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$	(947,473)
Adjustments to reconcile operating income (loss):		
Depreciation and amortization		2,265,586
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable		(538,291)
Increase (decrease) in accounts payable		309,046
Increase (decrease) in customer deposits		7,581
Decrease (increase) in prepaid items		(35,935)
Increase (decrease) in other payables		132,864
Increase (decrease) in PERS payable		-
Increase (decrease) in pension accounts		(203,626)
Other items		1,532,886
Total adjustments		3,470,111
Net cash provided (used) by operating activities	**$**	**2,522,638**
NONCASH TRANSACTIONS		
Accounts payable change in financing capital acquisitions	$	85,744
Addition of Land through the issuance of debt	$	1,494,954

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

PORT OF FRIDAY HARBOR
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

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 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. On December 31, 2025, the Treasurer was holding $8,344,332 in short term residual investments of surplus cash. For the 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. Investments in the State Investment Pool (LGIP) are classified as cash equivalents on the financial statements.

2. Restricted Assets

This account contains resources for debt service and customer security deposits. In accordance with the 2019 Revenue Bond resolutions, a separate restricted account is required. On December 31, 2025, the Treasurer was holding $863,924 of restricted assets. Of which $486,560 was debt service and $377,364 of customer security deposits.

3. Receivables

Accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Accounts receivable has been recorded net of estimated uncollectible amounts. As of December 31, 2025, the customer accounts receivable was $60,495.

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

Lease receivable consists of the present value of lease payments expected to be received over lease terms that exceed one year. Lease Receivable - current is the portion that will be received in the upcoming year. Lease receivable – non-current is the portion that will be received more than a year from December 31, 2025, through the end of the lease term. As the Port estimates that all lease receivable amounts will be collected, no estimated uncollectible amounts are established.

4. Leases Receivable and Deferred Inflows of Resources
   Leases receivable consist of amounts recorded in compliance with GASB 87, *Leases.* The Port has recorded the Lease Receivable and Deferred Inflows of Resources, both at December 31, 2025, in the amount of $6,955,134.

   At the commencement of a lease, the Port initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the (straight-line basis/effective interest method).

   Key estimates and judgements related to lease's include how the Port determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

   The Port monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. See Note 9 for more information.

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

6. Prepaid items
   Prepaid items consist of amounts that are for service or supplies that are to be consumed into operations over future periods that extend beyond that of the reporting period.

7. Capital Assets and Depreciation/Amortization – See Note 4, *Capital Assets and Depreciation/Amortization*
   Capital assets include land, buildings, equipment, improvements and intangibles. 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

Amortization expense is applied to intangible assets and uses a straight-line method for a period of five 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, lease receivables, and asset retirement obligations.

9. Compensated Absences

The Port accounts for compensated absences, paid time off (PTO), and similar benefits. Liabilities for compensated absences are recognized when earned by employees, can be used in a subsequent period, and is expected to be paid.

Key policies include:

- Accrued liabilities are recognized in the financial statements for amounts attributable to employees' services rendered through the end of the reporting period.
- Liabilities for compensated absences are measured based on pay rates in effect at the reporting date and include applicable salary-related payments.
- The liability is categorized as a current or noncurrent liability based on the timing of expected payments.
- Accrual of PTO leave liabilities is based on policies allowing employees to receive payment for unused balances upon termination or retirement, subject to the probability of payment.
- The first in first out (FIFO) flow assumption was used.

PTO pay may be accumulated up to maximum of 700 hours per calendar year and is payable upon separation, retirement, or death.

Compensatory time, upon mutual agreement between management and employees, can be awarded in lieu of overtime. The maximum amount of compensatory time permitted to accrue is 40 hours.

At year-end 2025, the Port had accrued compensated absences in the amount of $378,056. Of which $273,607 is considered short-term paid within one year, and $104,449 considered long-term to be paid beyond one year period.

10. 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.

For the purposes of calculating restricted net position related to the net pension asset, the Port includes the net pension asset only.

11. Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payables are reported net of the applicable bond premium or discount. Bond issuance costs are reported as period costs in the year of the bond issuance. See Note 8, *Long-Term Debt.*

12. 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 13 for more information.

As required by GASB 83, Paragraph B49, the Port has adjusted the ARO based on inflation as documented by the US Bureau of Labor Statistics. Additionally, the life expectancy of the wells has been adjusted based on forecasted decommissioning plans.

13. Net Position

Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted is the amount restricted by external creditors, grantors, contributors, or laws and regulations imposed by other governments.

Unrestricted is the amount of all net position that does not meet the definition of "invested in capital assets" or "restricted" net position.

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 amounts that approximate fair value or at amortized cost, as applicable. The Port does not hold any investments required to be measured at fair value in accordance with GASB Statement No. 72. 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.

The Port's investments consist primarily of deposits and external investment pools, which are not subject to fair value measurement.

Investments are subject to Custodial Credit Risk.

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. With the exception of the Washington State Local Government Investment Pool, the Port's investments are registered, or held by the County

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 equivalent.

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. 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, 2025	
Cash and Investments by Type	
Bank Deposits	$ 1,044,798
Petty Cash	8,000
LGIP	7,291,534
	$ 8,344,332
Cash and Investments on Financial Statements	
Cash and cash equivalents	$ 7,480,408
Cash and cash equivalents restricted	863,924
	$ 8,344,332

NOTE 3 – PROPERTY TAXES:

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 2025 was $.0916 per $1,000 on assessed valuation of $6,220,047,658 for a

total regular tax of $565,000. The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 4 – CAPITAL ASSETS, DEPRECIATION/ AMORTIZATION:

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, 2025, was as follows:

Description	Restated Beginning Balance 1/1/2025	Increases	Decreases	Ending Balance 12/31/2025
Capital assets, not being depreciated:				
Land	$ 10,157,167	$ 1,094,954	$ -	$ 11,252,121
Construction in process	6,088,283	5,943,278	(5,029,525)	7,002,036
Total capital assets, not being depreciated	**16,245,450**	**7,038,232**	**(5,029,525)**	**18,254,157**
Capital assets being depreciated/amortized				
Buildings	31,496,979	1,250,484	-	32,747,463
Improvements other than buildings	26,606,345	4,132,740	-	30,739,085
Machinery and equipment	2,393,875	46,301	-	2,440,176
Intangible assets	2,695,223	-	-	2,695,223
Total capital assets being depreciated/amortized	**63,192,422**	**5,429,525**	-	**68,621,947**
Less accumulated depreciation/amortization for:				
Buildings	(11,990,911)	(1,002,571)	-	(12,993,482)
Improvements other than buildings	(18,282,557)	(886,399)	-	(19,168,956)
Machinery and equipment	(1,335,599)	(214,694)	-	(1,550,293)
Intangible assets	(2,003,147)	(161,922)	-	(2,165,069)
Total accumulated depreciation/amortization	**(33,612,214)**	**(2,265,586)**	-	**(35,877,800)**
Total capital assets being depreciated/amortized, ne	**29,580,208**	**3,163,939**	-	**32,744,147**
Total capital assets, net	**$ 45,825,658**	**$ 10,202,171**	**$ (5,029,525)**	**$ 50,998,304**

NOTE 5 – CONSTRUCTION COMMITMENTS:

The Port of Friday Harbor has active construction projects as of December 31, 2025, construction commitments are as follows:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
Airport SW Development Environmental Assessment	$605,321	$346,732
Southwest Apron Expansion & Fueling Site Development	1,451,666	2,243,457
Hangar 80	2,631,568	733,750
Airfield Lighting and Signage	73,474	1,031,596
Port Administrative Building	93,925	1,406,075
Marina Parking Lot Solar Canopy	236,731	213,269
	$ 5,092,685	$ 5,974,879

NOTE 6 – PENSION PLANS:

The following table represents the aggregate pension amounts for all plans for the year 2025:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	109,835
Pension assets		456,949
Deferred outflows of resources		642,834
Deferred inflows of resources		156,713
Pension expense/expenditures		(55,865)

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR 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 local governments, and higher education employees not participating in higher education retirement plans.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% 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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). 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.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. 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. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The PERS 1 employer and PERS 2/3 employer and employee contribution rates are developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. For part of the year, the PERS Plan 2/3 employer rate included a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plans defined benefit required contribution rates (expressed as a percentage of covered payroll) for the fiscal year were as follows:

Employer Contribution Rates				
Time Frame	*Contribution Rate*	*PERS 1 UAAL*	*Administrative Fee*	*Employer*
January – June	**6.36%**	**2.55%**	**0.20%**	**9.11**
July – December	**5.38**	**0.00**	**0.20**	**5.58**

Employee Contribution Rates	
PERS 1	**6.00%**
PERS 2	**6.36% January – June and 5.38% July – December**
PERS 3	**Varies: 5% to 15%**

The Port's actual PERS plan contributions were $25,931 to PERS Plan 1 (including the UAAL contributions) and $121,828 to PERS Plan 2/3 for the year ended December 31, 2025.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined by an actuarial valuation completed as of June 30, 2024 with the results rolled forward to June 30, 2025. 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 2023 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2024 actuarial valuation report.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increases.
- **Investment rate of return:** 7%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Change in Assumptions and Methods: OSA improved their modeling of benefits paid to retirees and beneficiaries in their month of death to better match current administrations.

Long-Term Expected Rate of Return

OSA selected a 7% long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the 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, 2025. The inflation component used to create the table is 2.5% 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	19%	2.10%
Tangible Assets	8%	4.50%
Real Estate	18%	4.80%
Global Equity	30%	5.60%
Private Equity	25%	8.60%
	100%	

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7%. 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% was used to determine the total liability.

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
PERS 1	185,336	109,835	43,619
PERS 2/3	741,516	(456,949)	(1,441,223)

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

The Port's proportionate share of the net pension liabilities or assets are as follows:

Plan	Liability or (Asset)
PERS 1	$ 109,835
PERS 2/3	(456,949)

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

	Proportionate Share 6/30/24	Proportionate Share 6/30/25	Change in Proportion
PERS 1	0.01041%	0.00932%	-0.00110%
PERS 2/3	0.01333%	0.01197%	-0.00135%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2025, 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 Non-employer Allocations for all plans.

Pension Expense

For the year ended December 31, 2025, the Port's recognized pension expense as follows:

	Pension Expense
PERS 1	$ (33,596)
PERS 2/3	(22,269)
TOTAL	$ (55,865)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2025, the Port's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 7,551
TOTAL	$ -	$ 7,551
PERS 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 334,094	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	102,901
Changes of assumptions	176,594	12,618
Changes in proportion and differences between contributions and proportionate share of contributions	74,992	33,643
Contributions subsequent to the measurement date	57,154	-
TOTAL	$ 642,834	$ 149,162

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 334,094	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	110,452
Changes of assumptions	176,594	12,618
Changes in proportion and differences between contributions and proportionate share of contributions	74,992	33,643
Contributions subsequent to the measurement date	57,154	-
TOTAL	$ 642,834	$ 156,713

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. 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
2026	$ 7,205	$ 168,898
2027	(5,249)	68,340
2028	(5,451)	65,141
2029	(4,056)	27,851
2030	-	67,144
Thereafter	-	39,144

NOTE 7 – RISK MANAGEMENT:

Port of Friday Harbor is a member of Enduris Washington ("Enduris" or "the Pool") under an interlocal governmental agreement. Enduris was established as a Washington Risk Pool under RCW 48.62.031, allowing local government entities to self-insure risks independently or collectively, purchase insurance or reinsurance together, and contract for services like risk management, claims processing, and administration. Enduris is fully funded by its member participants. Members submit claims to the Pool, which evaluates coverage and manages the claims process.

For the fiscal year ending August 31, 2025, Enduris had 497 members from various special purpose districts across the state. Members make annual contributions to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. Membership requires a minimum one-year commitment, with 60 days' notice required to

terminate before renewal. The Interlocal Governmental Agreement renews automatically unless withdrawal or termination options are exercised. Withdrawing or terminated members remain liable on a pro rata basis for any assessments levied against the membership during their period of membership, as if they were still a member.

The Enduris program offers various forms of joint self-insurance and reinsurance coverage for its members, including Liability coverage (general, auto, public officials' errors and omissions, terrorism, employment practices), Property coverage (buildings, contents, equipment, boiler/machinery, business interruption), Auto Physical Damage, Cyber coverage, Pollution coverage, Crime Blanket coverage, Named Position coverage, Alliant Deadly Weapon Response Program (ADWRP) coverage, and Identity Fraud Reimbursement coverage. Blanket Accident Insurance is provided for specific participating districts. Pollution, Cyber, Blanket Accident, ADWRP, and Identity Fraud Expense Reimbursement coverage are claims-made and reported; Crime coverage is discovery-based; all other coverage is occurrence-based.

Members may pay a deductible or co-pay for each covered loss, as per the terms of their coverage. Each year, members receive a Memorandum of Coverage detailing their specific coverage, limits, and deductibles. In certain instances, the Pool may allow members to elect limits, coverage, deductibles, and co-pays specific to their needs. Enduris pays for covered losses above the member's deductible or co-pay for the specific coverage, up to the Pool's self-insured retention (SIR), and then uses excess/reinsurance from unrelated insurance companies to indemnify covered losses beyond the SIR up to the coverage maximum limit.

Enduris issues an annual Financial Report that includes financial statements and other required supplementary information. The latest Enduris Washington Financial Statements Audit Report is available on the SAO website. https://sao.wa.gov/reports-data/audit-reports

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 bond matures in 2040.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/25
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 an earlier 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
2026	$ 312,734	$ 195,815
2027	323,039	185,510
2028	333,205	175,344
2029	344,664	163,885
2030	356,021	152,528
2031-2035	1,963,610	579,138
2036-2040	2,309,270	233,476
Total	$ 5,942,543	$ 1,685,696

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. On December 31, 2024, restricted assets contain $466,852 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.

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/25
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%	$ 7,250,000	$ 5,934,175

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

Year Ending December 31	Principal	Interest
2026	$ 275,326	$ 180,498
2027	279,525	172,123
2028	283,788	164,069
2029	288,116	154,989
2030	292,509	146,226
2031-2035	1,530,834	595,278
2036-2040	2,984,076	304,257
Total	$ 5,934,175	$ 1,717,440

Private placement debt, or direct borrowing.

In the fall of 2025, the Port had the opportunity to purchase a piece of property adjacent to Jackon Beach known as the Cannery property. This was a private placement debt. The owners of the property made a generous offer to sell it to the Port as an interest-free note with monthly payments in the amount of $8,000 per month for 15 years. In the event the Port fails to make the payments the owner could foreclose on the property. There are no provisions for early pay off from the Port. The Port has the right to pay the debt off early without penalty. There are no subjective terms that would allow modifications to the payment schedule.

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/25
Private placement debt to acquire Cannery property	2040	0.00%	$ 1,494,954	$ 1,416,000

Year Ending December 31	Principal	Interest
2026	$ 96,000	$ -
2027	96,000	-
2028	96,000	-
2029	96,000	-
2030	96,000	-
2031-2035	480,000	-
2036-2040	456,000	-
Total	$ 1,416,000	$ -

Changes in Long-Term Liabilities

During the year ended December 31, 2025, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
Bond Payable: Refunding 2014 G.O. Bond (2015 G.O. Bond)	$ 5,942,543	$ -	$ -	$ 5,942,543	$ 312,734
Bond Payable: 2019 Revenue Bond	6,205,366	-	(271,191)	5,934,175	275,326
Hollis Finan Note	-	1,494,954	(78,954)	1,416,000	96,000
Net Pension Liability	184,987	-	(75,152)	109,835	-
Compensated Absences *	245,193	132,863	-	378,056	273,607
Asset Retirement Obligation	465,920	14,443	-	480,363	-
Total long-term liabilities	$ 13,044,009	$ 1,642,260	$ (425,297)	$ 14,260,972	$ 957,667

NOTE 9 – LEASES:

As of December 31, 2025, the Port participated as a lessor in the following lease agreements:

Lease Type	Number of Leases	Term (Years)	Remaining Extensions	Lease Receivable as of 12/31/2025	Rent Increases
Land Lease	1	75	None	$ 286,577	CPI annually and FMV every 5 years
Land Lease	1	39	None	173,156	CPI annually
Land Lease	1	30	None	2,550	CPI annually
Land Lease	1	30	One 10-Yr term	147,754	CPI annually and FMV every 5 years
Land Lease	1	30	Three 5-Yr terms	323,423	CPI annually and FMV every 5 years
Land Lease	1	30	Four 5-Yr terms	148,315	CPI annually and FMV every 5 years
Land Lease	2	25	Five 5-Yr terms	997,090	CPI annually and FMV every 5 years
Land Lease	3	25	Three 8-Yr terms	1,185,282	CPI annually and FMV every 5 years
Land Lease	7	25	Three 5-Yr terms	874,049	CPI annually and FMV every 5 years
Land Lease	1	25	None	100,904	CPI annually and FMV every 5 years
Land Lease	4	24	Three 5-Yr terms	104,210	CPI annually and FMV every 5 years
Dock Lease	1	23	One 10-Yr term, One 5-Yr term	13,156	CPI annually
Land Lease	1	15	Three 5-Yr terms	59,752	CPI annually and FMV every 5 years
Land Lease	2	10	Three 10-Yr terms	204,433	CPI annually and FMV every 5 years
Building Lease	1	10	Three 10-Yr terms	424,751	CPI annually and FMV every 5 years
Building Lease	1	10	Two 5-Yr terms	287,387	CPI annually and FMV every 5 years
Building Lease	1	10	One 10-Yr term	822,503	CPI annually and FMV every 5 years
Land Lease	1	10	One 15-Yr term	127,421	CPI annually and FMV every 5 years
Building Lease	1	15	None	163,301	None
Land Lease	1	7	Three 13-Yr terms	248,353	CPI annually and FMV every 5 years
Building Lease	1	5	Three 5-Yr terms	1,653	CPI annually
Dock Lease	1	5	Two 3-Yr terms	135,370	CPI annually and FMV every 5 years
Building Lease	1	5	One 5-Yr term	6,500	CPI annually and FMV every 5 years
Building Lease	1	5	None	80,693	CPI annually
Building Lease	1	1	Five 2-Yr terms	36,552	CPI annually and FMV every 5 years
	38			$ 6,955,134	

On December 31, 2025, the Port has 38 leases in which it is acting as a Lessor. The Port leases land, buildings and improvements with monthly payments ranging from $247 to $8,333 per month. Initial terms of the lease agreements range from 5 to 75 years.

As of December 31, 2025, the Port has twenty leases that will expire in the next five years. One building lease is at the end of their extension, however, the tenant has shown interest in establishing a new lease. Two building leases and a dock lease will terminate in the next couple of years. It is unknown if the tenants will pursue a new lease. We anticipate sixteen airport leases with structures will end but anticipate new leases will be written. Establishing new leases will require improvements stated in the Port's lease policy. The length of the leases will depend on the useful life of the structure.

The Port's schedule of future payments included in the measurement of the lease receivable is as follows:

Year Ending December 31	Principal	Interest	Total
2026	$ 329,714	$ 303,320	$ 633,034
2027	337,085	288,702	625,786
2028	270,093	274,391	544,484
2029	269,872	261,222	531,094
2030	250,088	249,606	499,694
2031-2035	1,361,914	1,083,912	2,445,826
2036-2040	691,371	860,280	1,551,650
2041-2045	710,177	704,716	1,414,893
2046-2050	748,922	528,968	1,277,890
2051-2055	633,892	384,274	1,018,166
2056-2060	542,625	256,303	798,928
2061-2065	466,902	126,924	593,826
2066-2070	341,474	31,479	372,953
2071-2074	1,006	3	1,009
Total	**$ 6,955,134**	**$ 5,354,099**	**$ 12,309,233**

NOTE 10 – 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 11 – RESTRICTED COMPONENT OF FUND NET POSITION:

The Port has a restricted component of net position in the amount of $486,560 as required by the 2019 revenue bond resolutions. The Port is required to have six months (6) reserve restricted for debt service. As of 2025, the current restricted reserve meets these requirements. Additionally, the amount related to pensions is the pensions net asset for the PERS 2/3 retirement program, which is $456,949.

NOTE 12 – 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 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, 2025, 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 13 – ASSET RETIREMENT OBLIGATION:

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 retirement obligation of the six (6) tanks totaled $480,363. This amount will be reviewed annually 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.

The life of the underground storage tank has an estimated life of 40 years. The tanks are all at the end of their estimated useful life. 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.

The two (2) underground storage tanks at the airport will be decommissioned within the next few years. FAA is providing funds to purchase above ground tanks in the fiscal years 2025-2026. Upon installation of the above ground airport tanks, the underground tanks will be decommissioned. The four (4) tanks at the marina will remain.

The Port has an active well at the airport that is 240' deep by 6" in diameter. This asset creates an ARO of less than $5,000 in the event the Port chose to decommission the well. We deem this ARO to be not reasonably estimable since the well right has no end date. The Port intends to certify this well as a Class A water system and intends using it indefinitely. The permit has been obtained, and the work will complete concurrent with the construction of the Port Administrative Building in 2026-2027.

Port Management Agreement (PMA): The Port has substantial infrastructure in and surrounding the marinas covered by the agreement. The Port has the legal right to continue holding all of these assets in a PMA thus resulting in no trigger of the removal cost obligation. The current agreement ends 12/31/28 with a renegotiation period within 2 years prior. The Port intends to exercise its right to renew the PMA and DNR cannot, and has never, prevented a Washington Port from exercising a PMA renewal.

Due to the de facto perpetual nature of the PMA associated with the assets, the Port determines this ARO to not be estimable based on the lack of reasonably estimable end date.

NOTE 14 – ERROR CORRECTIONS:

In fiscal year ending December 31, 2025, the Port had reported error corrections for the following.

	Correction of Error
Interest expense acrual adjustment	$ (363,841)
Taxes levied for general purpose recognized in the wrong period	4,616
	$ (359,225)

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability (Asset)
PERS 1
As of June 30
Last Ten Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2025	0.009300%	$ 456,949	$ 1,924,141	23.75%	89.07%
2024	0.010400%	184,987	2,055,048	9.00%	84.05%
2023	0.010000%	227,406	1,811,595	12.55%	80.16%
2022	0.009200%	255,438	1,486,675	17.18%	76.56%
2021	0.009200%	112,036	1,423,507	7.87%	88.74%
2020	0.008500%	301,296	1,356,613	22.21%	68.64%
2019	0.007900%	305,475	1,120,861	27.25%	67.12%
2018	0.007800%	347,011	1,077,922	32.19%	63.22%
2017	0.007800%	370,828	985,579	37.63%	61.24%
2016	0.008800%	473,300	1,047,823	45.17%	57.03%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability (Asset)
PERS 2/3
As of June 30
Last Ten Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2025	0.012000%	$(109,835.00)	$ 1,924,141	-5.71%	105.53%
2024	0.013300%	(439,301)	2,055,048	-21.38%	105.17%
2023	0.012900%	(527,337)	1,811,595	-29.11%	107.02%
2022	0.011900%	(442,458)	1,486,675	-29.76%	106.73%
2021	0.011800%	(1,188,420)	1,423,507	-82.58%	120.29%
2020	0.011100%	150,928	1,356,613	10.43%	97.22%
2019	0.010300%	99,650	1,120,861	8.89%	97.77%
2018	0.010000%	171,134	1,077,922	15.88%	95.77%
2017	0.010100%	349,328	985,579	35.44%	90.97%
2016	0.011300%	569,349	1,047,823	54.34%	85.82%

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

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2025	$ 25,931	$ (25,931)	$ -	$ 2,079,226	1.25%
2024	53,840	(53,840)	-	1,949,811	2.76%
2023	67,433	(67,433)	-	1,993,504	3.38%
2022	59,915	(59,915)	-	1,594,477	3.76%
2021	62,606	(62,606)	-	1,457,709	4.29%
2020	61,850	(61,850)	-	1,353,176	4.57%
2019	60,426	(60,426)	-	1,223,817	4.94%
2018	57,714	(57,714)	-	1,139,780	5.06%
2017	48,573	(48,573)	-	990,279	4.90%
2016	50,196	(50,196)	-	1,052,322	4.77%

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

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required Contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2025	$ 121,828	$ (121,828)	$ -	$ 2,079,226	5.86%
2024	124,008	(124,008)	-	1,949,811	6.36%
2023	126,787	(126,787)	-	1,993,504	6.36%
2022	101,409	(101,409)	-	1,457,709	6.96%
2021	104,176	(104,176)	-	1,353,176	7.70%
2020	101,901	(101,901)	-	1,353,176	7.53%
2019	94,579	(94,579)	-	1,139,780	8.30%
2018	85,485	(85,485)	-	1,139,780	7.50%
2017	68,240	(68,240)	-	990,279	6.89%
2016	65,560	(65,560)	-	1,052,322	6.23%

Port of Friday Harbor

Notes to Required Supplemental Information - Pension

As of December 31

Last Ten Fiscal Years

Note 1: 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 2: 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 3: Change in contribution rate

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

PERS 1, PERS 2/3

From this Date	Through this Date	Employer Rate	
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	6/30/2021	12.97%	
7/1/2021	8/31/2022	10.25%	
9/1/2022	6/30/2023	10.39%	
7/1/2023	8/31/2023	9.39%	
9/1/2023	6/30/2024	9.53%	
7/1/2024	8/31/2024	9.03%	
9/1/2024	6/30/2025	9.11%	
7/1/2025	Current	5.58%	*

* Employer contribution rate includes an administrative expense rate of 0.20%

Port of Friday Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2025

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass-Through Awards	From Direct Awards	Total		
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-045-2024	-	432,377	432,377	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-046-2024	-	588,341	588,341	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-047-2024	-	1,631,074	1,631,074	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-048-2025	-	5,323	5,323	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-049-2025	-	445,455	445,455	-	1, 2
			Total ALN 20.106:	-	3,916,805	3,916,805	-	
			Total Federal Awards Expended:	**46,317**	**3,916,805**	**3,963,122**	-	

The accompanying notes are an integral part of this schedule.

Port of Friday Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2025

Federal Agency (Pass-Through Agency)	Federal Program	ALN 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 Parks and Recreation)	Clean Vessel Act	15.616	CV-325-301	46,317	-	46,317	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-039-2021	-	66,189	66,189	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-041-2021	-	480,155	480,155	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-042-2023	-	43,892	43,892	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106	3-53-0152-043-2023	-	223,999	223,999	-	1, 2

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, 2025

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, prior to 10/1/24 and 15-percent after 10/1/24, 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.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

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.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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