Office of the Washington State Auditor
Pat McCarthy

## Financial Statements Audit Report

# Port of Anacortes

**For the period January 1, 2018 through December 31, 2018**

**Published May 16, 2019**

**Report No. 1023782**

# Office of the Washington State Auditor
# Pat McCarthy

May 16, 2019

Board of Commissioners
Port of Anacortes
Anacortes, Washington

## Report on Financial Statements

Please find attached our report on the Port of Anacortes financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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

# TABLE OF CONTENTS

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

**Port of Anacortes**
**January 1, 2018 through December 31, 2018**

Board of Commissioners
Port of Anacortes
Anacortes, 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 Anacortes, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated May 9, 2019.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

May 9, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Port of Anacortes**
**January 1, 2018 through December 31, 2018**

Board of Commissioners
Port of Anacortes
Anacortes, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Anacortes, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Anacortes, as of December 31, 2018, 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.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2019 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

May 9, 2019

# FINANCIAL SECTION

**Port of Anacortes**
**January 1, 2018 through December 31, 2018**

## REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

## BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018
Statement of Revenues, Expenses and Changes in Fund Net Position – 2018
Statement of Cash Flows – 2018
Notes to Financial Statements – 2018

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2018
Schedule of Proportionate Share of Net Pension Liability –PERS 2/3 – 2018
Schedule of Employer Contributions – PERS 1– 2018
Schedule of Employer Contributions – PERS 2/3 – 2018

## Introduction

The following is the Port of Anacortes' (the Port's) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year ended December 31, 2018, with selected comparative information for the year ended December 31, 2017. 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 in 1926 under provision of the Revised Code of Washington (RCW Title 53). The Port is independent from other local or state governments and has geographic boundaries that consist of Fidalgo, Guemes, Cypress, Sinclair, and other neighboring islands, and a small strip of land bordering Padilla Bay up to and including Samish Island. 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 for the citizens of the district.

Five elected Commissioners, elected to four-year terms, serve as the governing body of the Port. The Board of Commissioners appoints an Executive Director to manage Port operations, and a Port Auditor (currently the Director of Finance and Administration) to manage the Port's finances. Skagit County levies and collects taxes on behalf of the Port as determined by the Commissioners. These tax revenues go to support public access improvements/amenities, provide financing for industrial land acquisition and development (including environmental costs) and debt service payments for general obligation bonds.

## Overview of the Financial Statements

This discussion and analysis serves 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 Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position* indicate whether the Port's financial position has improved because of the year's activities. The *Statement of Net Position* provides information on all of the Port's assets, liabilities, and deferred inflows and outflows of resources. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The *Statement of Revenues, Expenses, and Changes in Fund Net Position* show how the Port's 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 Net Position* reflects the Port's financial position at year-end. Financial position is represented by the difference between assets owned and deferred outflows, and liabilities owed and deferred inflows at a specific point in time. The difference between the two is net position. As previously noted, changes in net position over time can be an indicator of the Port's financial position.

Financial Highlights

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by $45.110 million (reported as total net position). This is an increase of $4.593 million over the prior year. Of this increase, $2.086 million was a result of an adjustment to environmental remediation costs previously accrued due to the signing of a significant cost share funding agreement with a third party. Additionally, a strong economy contributed to yet another record-breaking year in the Marina and bulk product shipments returned to more typical levels in 2018, producing a healthy net operating income.
- The unrestricted component of net position is a negative number due to significant balances in noncurrent liabilities, most notably, the net pension liability and the environmental remediation liability (see Notes 7 and 12 in the *Notes to the Financial Statements* for further discussion of those items).
- The Port maintained consistent cash and investment balances during 2018 with a total of $12.443 million as of December 31, 2018, as compared to $11.488 million as of December 31, 2017. All of this is unrestricted and is well above the Port's internal operating reserve of approximately $2.7 million.
- Total liabilities decreased $1.785 million over the prior year. The Port continued to pay down its outstanding general obligation bonds and acquired no new debt in 2018. Additionally, the Port's net pension liability decreased approximately $471,000 based on the Department of Retirement Services actuarial estimates.

The following condensed financial information provides an overview of the Port's financial position for the fiscal years ended December 31:

| | 2018 | 2017 |
|---|---|---|
| Current assets | $ 16,031,424 | $ 13,161,547 |
| Capital assets, net | 53,638,828 | 53,440,555 |
| Other noncurrent assets | 134,675 | 198,000 |
| **Total Assets** | 69,804,927 | 66,800,102 |
| **Total Deferred Outflows of Resources** | 403,714 | 465,231 |
| Current liabilities | 7,886,123 | 4,160,028 |
| Noncurrent liabilities | 16,498,604 | 22,010,060 |
| **Total Liabilities** | 24,384,727 | 26,170,088 |
| **Total Deferred Inflows of Resources** | 713,602 | 577,952 |
| Net Position: | | |
| Invested in capital assets, net of related debt | 45,862,041 | 44,300,574 |
| Unrestricted | (751,729) | (3,783,281) |
| **Total Net Position** | **$ 45,110,312** | **$ 40,517,293** |

Summary of Operations and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Fund Net Position* presents how the Port's net position changed during the current 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.

**Revenues:**

Total operating revenues increased by approximately $2.832 million, or 19.8%, over 2017 revenues, primarily due to increased bulk product shipments at the Marine Terminal and a continuing strong economy keeping the Marina full and producing higher fuel sales. Revenues by operating area are summarized as follows:

- Airport revenues were flat, approximately $15,000 greater than the prior year. However, skewing these results are operating grants, which totaled $53,000 in 2017, but none in 2018. While there were no major changes in the Airport's leasehold tenants (the primary source of Airport revenues), there was a large increase in fuel sales. A more competitive pricing strategy and an economy lending to more recreational flights is believed to have spurred the additional activity which resulted in gross fuel sales of $162,000, an increase of $69,000 over the prior year.
- Total revenues reported at the Marina increased approximately $1.180 million from the prior year, as overall the Marina experienced increased volumes in every aspect of its operation. Moorage revenues increased over $267,000, or 6%. Contributing factors were 3% rate increases, nearly 16,000 guest boater nights, and a higher permanent moorage occupancy earlier in the boating season. At the fuel dock, sales topped 1.149 million gallons, an increase of 7% over 2017. Additionally, fuel prices, on average, were $0.50/gallon more than the prior year. Combining price and volume, gross fuel sales were over $780,000 higher in 2018 than in 2017.
- Marine Terminal revenues increased $1.585 million or 33.6%. Petroleum coke and prilled sulfur remain as the Port's main bulk product exports and typically, annual volumes hover around 325,000 metric tons. A planned refinery maintenance shutdown in 2017 contributed to volumes of only 229,015 metric tons, well below historical averages. Whereas in 2018, volumes returned to their more typical levels and totaled 343,877 metric tons.
- Annual CPI adjustments contributed to the increase in Property revenues of approximately $52,000 as the Port experienced stable occupancy at all of its leasehold facilities.

**Expenses:**

- Similar to the increase in operating revenues, 2018 total operating expenses increased by approximately $2.495 million, or 19%, over 2017 expenses. Higher fuel cost (function of both oil prices and volumes sold) and increased longshore/stevedoring expense directly attributable to Marine Terminal activity were the largest factors in this increase.

**Non-Operating (including Environmental Activity):**

- Non-operating revenue for the year ended December 31, 2018 was $964,000, of which, $649,000 represented taxes levied. Property tax funds are used for property acquisition, industrial development including environmental costs, debt service for general obligation bonds and public access improvements. Property tax funds are not used to support general operations. The Port has historically levied a tax well below the maximum allowed. The 2018 tax levy of $649,000 was approximately $0.10/$1,000 of assessed value, as compared to the maximum levy allowed of $0.23/$1,000 or $1.518 million.
- Non-operating expense, which is primarily comprised of general obligation bond interest expense, totaled $364,000 as of year-end. The Port has two outstanding general obligation bonds that mature in 2024.

- Environmental activities totaled a net income of $2.086 million, primarily due to a recovery, which became realizable in 2018, associated with the Quiet Cove site.

The table below summarizes the operations and change in net position for fiscal years ending December 31:

| | 2018 | 2017 |
|---|---|---|
| Airport | $ 417,571 | $ 402,818 |
| Marina | 8,878,380 | 7,698,647 |
| Marine Terminal | 6,299,959 | 4,714,786 |
| Properties | 1,566,740 | 1,514,490 |
| **Total Operating Revenues** | 17,162,650 | 14,330,741 |
| General operations | 9,211,060 | 6,863,940 |
| Facilities | 1,174,029 | 1,067,147 |
| General and administrative | 2,910,539 | 2,840,763 |
| Depreciation | 2,281,684 | 2,310,108 |
| **Total Operating Expenses** | 15,577,312 | 13,081,958 |
| **NET OPERATING INCOME** | 1,585,338 | 1,248,783 |
| Non-operating revenues | 963,941 | 796,964 |
| Non-operating expenses | (363,783) | (444,494) |
| Net environmental activities | 2,085,597 | 514,440 |
| **Total Non-Operating and Environmental** | 2,685,755 | 866,910 |
| **INCOME BEFORE CAPITAL CONTRIBUTIONS** | 4,271,093 | 2,115,693 |
| Capital grants and contributions | 321,926 | 61,460 |
| **INCREASE IN NET POSITION** | 4,593,019 | 2,177,153 |
| **NET POSITION – BEGINNING OF PERIOD** | 40,517,293 | 38,340,140 |
| **NET POSITION – END OF PERIOD** | **$ 45,110,312** | **$ 40,517,293** |

## Capital Assets and Debt Administration

Capital Assets

The Port's capital assets includes land, facilities (structures/buildings), machinery and equipment, and construction in progress. The Port's total net capital assets as of December 31, 2018 totaled $53.639 million (net of accumulated depreciation). This is a net increase of $198,000 over the prior year and results from capital asset purchases and/or progress/completion of capital improvement projects, offset by current year depreciation expense.

The most significant project completed in 2018 was a $1.9 million Pier 2 sheet pile bulkhead wall repair and replacement project. This project cut off soil migration from behind (landside) the existing sheet pile wall, prolonged the service life of the steel sheet pile wall and pier system, and improved stormwater flow and transit by terminal equipment. Permitting efforts continued on the Marina's A-Dock recapitalization project, and construction commenced on Curtis Wharf fender-rub board repairs. Both projects target completion in 2019-2020. Additional information on the Port's capital assets activity may be found in Note 4 in the *Notes to the Financial Statements.*

<u>Long-Term Debt</u>

Long-term debt (net of current portion) totaled $6.505 million as of December 31, 2018, consisting of outstanding general obligation bonds, which mature in 2024. This is a decrease of $1.170 million over the prior year. No new debt was acquired or issued in 2018, and the Port does not have any outstanding revenue bonds, lines of credit, or other bank financing.

The current portion of long-term debt, including accrued interest payable, totaled $1.262 million as of year-end.

Additional information on the Port's long-term debt can be found in Note 9 in the *Notes to the Financial Statements*.

## Economic Factors and the 2019 Budget

<u>Economic Factors</u>

- Anacortes, located on Fidalgo Island, is most notably known for the Washington State Ferries system, servicing the San Juan Islands and British Columbia. Thus, it is a popular tourist destination for those visiting the Islands, including recreational boaters. The town has historically been a mecca for commercial fisherman and marine trades, such as yacht building and repair, yacht brokerage firms and whale watching tours. In the 1950's, oil companies built two large refineries (currently operated by Marathon Petroleum Corporation, formerly Andeavor, formerly Tesoro, and Shell Corporations) near town and today, refining remains the largest industry in the area. The Port of Anacortes, with one of eight natural deep water marine terminal facilities in Puget Sound, its 1,000+ slip marina and its roughly 80 acres of commercial properties, is instrumental to the success and economic development of the community. In 2018, the Port completed a feasibility study determining it was both practically and financially feasible to relocate Port Administrative Offices and the events at the Transit Shed to a future multi-use events center located in the North or West Basin of the Marina. This will accomplish two major items: 1) the return of Pier 1 and the Transit Shed to its original industrial use, and 2) kick start development of the Marina's North and West Basin, bringing more people to downtown businesses and more visitors to the Marina. The Port has budgeted $700,000 in 2019 to achieve 30% design on the redevelopment project in cooperation with two key stakeholder advisory groups and independent consultants. Additionally, in February 2019, the Port, in partnership with the City of Anacortes and the Economic Development Alliance of Skagit County executed the Anacortes Maritime Strategic Plan. This 10-year plan, which promotes a sustainable and expanding maritime economy, will serve as a blueprint to follow over the next decade to advance and strengthen the foundations of the maritime industry in Anacortes. While the focus remains on economic development and bettering the community, the Port's aging infrastructure and deferred maintenance costs remain a challenge. For almost 10 years now, the economy has been steadily improving and the Port has seen significant increases in operating revenues. This has allowed the Port to reduce its long-term debt, maintain healthy cash reserves, and set aside money for capital improvement projects. And while the Port has been proactive in leveraging operating revenues, tax dollars, federal and state grant funds, and proceeds from bond issuances, in order to invest in critical asset maintenance and improvement, the prolonged period of economic recovery is concerning to economists. The Port continues to monitor economic indicators and work to position itself for progress, even through recessionary periods.

- As mentioned above, oil refining is the largest industry in the area. Two by-products generated as a result of the refining process, petroleum coke and prilled sulfur, are shipped via vessel and barge from the Port's Pier 2 Marine Terminal facility to customers in Canada and the Asian markets, under multi-year pricing agreements with Shell Puget Sound Refinery and Chemtrade Sulex, Inc.

In 2018, petroleum coke and prilled sulfur exports totaled 343,877 metric tons. This was 50% higher volume than 2017, in which planned maintenance shutdowns affected total production volumes, but 22% lower than 2016's record-breaking year. Historically, the pricing agreements have not guaranteed quantities shipped, and a variety of factors have resulted in volatility and an inability to accurately forecast results, as highlighted by the fluctuation in volumes just over the past 3 years. While the current agreement with Chemtrade Sulex is effective through May 31, 2021 (with an additional option to extend for five years), the pricing agreement with Shell expired in 2018 and was recently renegotiated. The amended pricing agreement, effective January 1, 2019, provides for a minimum annual guarantee. In addition to securing the Port's revenues relative to petroleum coke, this new agreement both retains the current level of local family wage jobs for the next few years, and is also anticipated to create additional local jobs as the annual volume of cargo expected to ship through the terminal increased nearly 40,000 metric tons per year. Despite this major accomplishment, the Marine Terminal is still underutilized and the Port continues to pursue additional opportunities. In 2019, the Port plans to complete an in-depth business strategy and related marketing effort with the intent to both retain the current products and increase utilization of this valuable Port asset.

- The Port maintains vibrant land-based businesses by providing improved property rentals, ground leases, and warehouse space for several large employers, including the Washington State Ferry System, Dakota Creek Industries, Cortland Company, Transpac Marinas, the Northwest Marine Skills & Technical Academy, Anthony's Restaurant, and many other tenants, most of which are secured under long-term leases. While the Port actively pursues a real estate planning strategy to attain the highest and best use of Port properties, acquisitions are paramount to expanding the Port's operations and providing opportunities for economic development and growth. For example, in 2011, the Port acquired the temporary dog park adjacent to the Marina's North and West basin. This property is a major component to the North and West Basin Redevelopment Plan discussed above, and will likely provide, at least in part, the site for the future multi-use events center. Subsequent to year-end, but prior to the issuance of the financial statements, the Port purchased approximately seven and a half acres of property adjacent to the Airport. This property is zoned light manufacturing and was purchased as buffer property and for future industrial or commercial development. Additionally, the Port transitioned the historic Olson Building, and a small tract of land behind the building, to the Anacortes Housing Authority. The two residential homes behind the Olson Building were demolished and the area is under development to be used as laydown storage space in support of Marine Terminal operations. See Note 15 Subsequent Events for additional information.

- The Port continues to manage its environmental remediation obligations via grant funds in cooperation with the Washington State Department of Ecology (DOE). To date, clean-ups have occurred and are significantly completed at the Cap Sante Marine site, the in-water portion of Dakota Creek Shipyard (DCI), the former Scott Paper Mill Site, and the former Shell Tank Farm site. 2019 will bring post-construction monitoring at the completed sites and continued planning and testing for remediation efforts at the Former Pier 2 Log Haul Out site (also known as "Log Pocket"), and the uplands portion of DCI. Additionally, the Port anticipates commencement of clean-up activities (remediation) of the uplands portion of the Quiet Cove site, pursuant an interim action. Critical to the ongoing success of the environmental program is the funding of clean-up activities by the Model Toxics Control Act (MTCA), which is funded through several different mechanisms, including a tax assessed on hazardous materials. Revenues from hazardous substance tax collections largely come from petroleum products. Those particular products suffered a prolonged period of low prices resulting in MTCA fund balances significantly overspent in the 2015-2017 biennium. Through concerted efforts at the state level, shortfalls in MTCA funding were covered by the passage of a bond package in January 2018. The Port was awarded funds of approximately $3 million as part of this bond package. These funds are only guaranteed through June 30, 2019 (the end of the current biennium) so the Port is staying attentive to developments in the legislature and may modify its environmental strategy accordingly. However, the Port is optimistic that the current grant award allows for remediation activities of the uplands portion of Quiet Cove to continue, along with the remedial investigation and feasibility studies of Log Pocket and DCI.

2019 Budget

The Port's 2019 budget assumes no new business or revenue streams. Accordingly, operating revenues and expenses are forecast at figures very consistent with actual results of 2018. Revenues, in particular, are forecast at $16.279 million, which would be a slight decrease over 2018 actual revenues. Uncertainty surrounding the petroleum coke and prilled sulfur market as they relate to exports at Pier 2, rising gas prices, and an unexpected longer shoulder season in the Marina, all contributed to what now appears to be conservative revenue projections. As discussed above, the renegotiated amendment to the Shell pricing agreement has helped to alleviate much of the uncertainty around the petroleum coke exports. In terms of expenses, forecast is largely business as usual, though an additional staff member in the facilities/maintenance department was budgeted, primarily to support events.

As discussed previously, the last few years of economic growth has enabled the Port to maintain its capital improvement plan while setting aside cash for future projects and paying down existing debt. During the 2018 budgeting process, the Commission approved an increase in the tax levy in 2019 to give the Port the ability to remain nimble as opportunities arise and to provide funds necessary to move forward the North and West Basin Redevelopment Plan. These factors contributed to an aggressive five-year capital improvement plan that contemplates over $33 million in projects across all operating areas at the Port. The 2019 capital budget, in particular, totals $7.103 million. At the Airport, in partnership with FAA/WSDOT, the Port will proceed with runway and taxiway fog seal improvements. At the Marina, work will continue on the A-Dock recapitalization project and while the Port targets completion in 2020, the pace of construction will largely depend on the intensive permitting processes. At the Marine Terminal, Curtis Wharf fender-rub board repairs, which was started in 2018, will be completed. Pre-construction elements will proceed with Phase 1 Curtis Wharf corrosion repairs and cathodic protection system. Pending permits, 2019 will also see construction activities associated with Phases 1 and 2 of the Pier 1 structural piling repairs. Planning and design, as mentioned earlier, will continue on the North and West Basin Upland Redevelopment as well as planning towards South Basin parking lot improvements. These parking lot improvements are in accordance with a lease signed in 2018 with a local fitness company who will be constructing a new facility in the area and the Port will work collaboratively to ensure adequate parking for their business and users of the Marina facilities.

## Requests for Information

The Port of Anacortes designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional financial information, please visit our website at www.portofanacortes.com or contact Jill Brownfield, Director of Finance and Administration, 100 Commercial Ave, Anacortes, WA  98221 or via phone at 360-293-3134.

**PORT OF ANACORTES**
**STATEMENT OF NET POSITION**
**December 31, 2018**

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash and cash equivalents (Note 1) | $ 11,539,425 |
| Investments (Note 2) | 903,713 |
| Total Cash and Investments | 12,443,138 |
| | |
| **Other Current Assets** | |
| Taxes receivable | 9,581 |
| Accounts receivable (net of allowance for uncollectible) | 1,219,596 |
| Interest receivable | 28,413 |
| Due from others | 181,303 |
| Fuel inventory | 42,062 |
| Prepaid expenses | 214,838 |
| Current portion of environmental remediation | 1,892,493 |
| Total Other Current Assets | $ 3,588,286 |
| | |
| Total Current Assets | 16,031,424 |
| | |
| **Noncurrent Assets** | |
| *Capital Assets Not Being Depreciated* (Note 4) | |
| Land | 19,664,530 |
| Construction in progress | 1,280,421 |
| Total Capital Assets Not Being Depreciated | 20,944,951 |
| *Capital Assets Being Depreciated* (Note 4) | |
| Facilities | 69,405,283 |
| Equipment | 4,735,729 |
| Total Capital Assets Being Depreciated | 74,141,012 |
| Accumulated depreciation | (41,447,135) |
| Total Net Capital Assets | 53,638,828 |
| **Other Noncurrent Assets** | |
| Environmental remediation (Note 12) | 134,675 |
| | |
| **TOTAL ASSETS** | **$ 69,804,927** |
| | |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Bond discounts | 8,872 |
| Deferred charge on refunding | 134,094 |
| Deferred outflows – pensions (Note 7) | 260,748 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | **$ 403,714** |

*The notes to the financial statements are an integral part of this statement.*

**PORT OF ANACORTES**
**STATEMENT OF NET POSITION**
**December 31, 2018**

| | |
|---|---|
| **LIABILITIES** | |
| **Current Liabilities** | |
| Warrants payable | $ 229,488 |
| Accounts payable | 1,400,274 |
| Accrued liabilities | 718,433 |
| Unearned income | 214,703 |
| Interest payable | 92,240 |
| Current portion of long-term debt (Note 9) | 1,170,000 |
| Current portion of environmental remediation (Note 12) | 4,060,985 |
| Total Current Liabilities | 7,886,123 |
| **Noncurrent Liabilities** | |
| General obligation bonds (Note 9) | 6,505,000 |
| Net pension liability (Note 7) | 1,204,345 |
| Environmental remediation (Note 12) | 8,789,259 |
| Total Noncurrent Liabilities | 16,498,604 |
| **TOTAL LIABILITIES** | **$ 24,384,727** |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Bond premiums | 244,753 |
| Deferred inflows – pensions (Note 7) | 468,849 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | **$ 713,602** |
| **NET POSITION** | |
| Invested in capital assets, net of related debt | 45,862,041 |
| Unrestricted | (751,729) |
| **TOTAL NET POSITION** | **$ 45,110,312** |

*The notes to the financial statements are an integral part of this statement.*

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

| | | |
|---|---|---|
| **OPERATING REVENUES** | | |
| Airport | $ | 417,571 |
| Marina | | 8,878,380 |
| Marine Terminal | | 6,299,959 |
| Properties | | 1,566,740 |
| Total Operating Revenues | | 17,162,650 |
| **OPERATING EXPENSES** | | |
| General operations | | 9,211,060 |
| Facilities | | 1,174,029 |
| General and administrative | | 2,910,539 |
| Depreciation | | 2,281,684 |
| Total Operating Expenses | | 15,577,312 |
| **NET OPERATING INCOME** | | 1,585,338 |
| **NON-OPERATING REVENUES** | | |
| Taxes levied | | 648,989 |
| Investment income | | 204,605 |
| Miscellaneous taxes | | 7,953 |
| Other income | | 75,244 |
| Gain on disposal of assets | | 27,150 |
| Total Non-Operating Revenues | | 963,941 |
| **NON-OPERATING EXPENSES** | | |
| Interest expense | | (363,783) |
| Total Non-Operating Expenses | | (363,783) |
| **ENVIRONMENTAL ACTIVITY** | | |
| Environmental recoveries | | 417,604 |
| Environmental remediation expense | | (496,265) |
| Environmental remediation costs previously accrued | | 2,164,258 |
| Total Environmental Activity | | 2,085,597 |
| **INCOME BEFORE CAPITAL CONTRIBUTIONS** | | 4,271,093 |
| Capital grants and contributions | | 321,926 |
| **INCREASE IN NET POSITION** | | 4,593,019 |
| **NET POSITION – BEGINNING OF PERIOD** | | 40,517,293 |
| **NET POSITION – END OF PERIOD** | **$** | **45,110,312** |

*The notes to the financial statements are an integral part of this statement.*

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

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from customers | $ 16,651,744 |
| Payments to suppliers | (8,937,661) |
| Payments to employees | (4,079,760) |
| Operating grants received | 98,901 |
| **Net cash provided by operating activities** | 3,733,224 |
| | |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Payments for environmental expenses | (457,510) |
| Receipts from environmental recoveries | 649,104 |
| Net cash provided by other non-operating income | 37,484 |
| **Net cash provided by noncapital financing activities** | 229,078 |
| | |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Principal payments on general obligation bonds | (1,345,000) |
| Interest paid on general obligation bonds | (398,020) |
| Purchases of capital assets | (2,474,581) |
| Proceeds from Build America Bonds subsidy | 72,863 |
| Cash received from property taxes | 647,637 |
| Cash received from grants and other agencies | 300,000 |
| **Net cash (used) by capital and related financing activities** | (3,197,101) |
| | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Proceeds from sales and maturities of investments | 1,790,686 |
| Net interest earned on investments | 190,043 |
| **Net cash provided by investing activities** | 1,980,729 |
| | |
| **Net increase in cash and cash equivalents** | 2,745,930 |
| | |
| **CASH AND CASH EQUIVALENTS** | |
| Beginning of year | 8,793,495 |
| End of year | 11,539,425 |
| **(Decrease) in cash and cash equivalents** | 2,745,930 |
| | |
| **Reconciliation of operating income to net cash provided by operating activities:** | |
| **Net operating income** | 1,585,338 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | |
| Depreciation | 2,281,684 |
| (Increase) in accounts receivable | (416,420) |
| Decrease in inventory and prepaid expenses | 3,694 |
| Decrease in accounts payable & other current liabilities | 278,928 |
| Total adjustments | 2,147,886 |
| **Net cash provided by operating activities** | $ 3,733,224 |

*The notes to the financial statements are an integral part of this statement.*

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Anacortes was incorporated in 1926 and operates under the laws of the state of Washington applicable to a public port district as a municipal corporation under the provisions of Chapter 53 of the *Revised Code of Washington* (RCW). The financial statements of the Port of Anacortes 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.

A. Reporting Entity

The **Port of Anacortes** (the Port) is a special purpose municipal government providing marine terminal, marina and aviation services fostering economic activity within the district. The Port is supported primarily through user charges, property leases, tariffs, and fees.

The Port is independent from other local or state governments and operates within district boundaries which include the northwest corner of Skagit County. It is administered by a five-member Board of Commissioners (the Commission), each of whom is elected to a four-year term. The Commission delegates authority to an Executive Director and administrative staff who conduct the operations of the Port. Skagit County levies and collects taxes and issues warrants for payment of expenditures on the Port's behalf.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The component unit discussed below is included in the district's reporting entity.

**Industrial Development Corporation of the Port of Anacortes** (IDC), a public corporation established by the Commission in 1982, is authorized to facilitate the issuance of tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the Port. The IDC may construct and maintain industrial facilities, which it leases, or sells to industrial users. Revenue bonds issued by the IDC are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they are issued.

The Commission governs the IDC. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements and there were no tax-exempt non-recourse revenue bonds outstanding as of December 31, 2018.

B. Basis of Accounting and Reporting

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *continued*

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

The Port uses the full-accrual basis of accounting, where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are reported on the Statement of Net Position.

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and facilities in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are facility use charges to customers for marine terminals, the marina, and the airport, as well as industrial and commercial property leases. Operating expenses are expenses for the benefit of customers and include the cost of labor, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Use of Estimates

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

D. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

   It is the Port's policy to invest all temporary cash surpluses. At December 31, 2018, cash on hand and short-term residual investments of surplus cash were $11,539,425. This amount is classified on the Statement of Net Position as cash and cash equivalents.

   For purposes of the Statement of Cash Flows, the Port considers short-term, highly liquid investments, with maturity of three months or less from the purchase date to be cash equivalents.

2. Investments – See Note 2, Deposits and Investments

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *continued*

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

   Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

   Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established for these items. Allowance for uncollectible amounts consists of the estimated amounts of customer accounts, notes and contracts that will never be collected. Estimated uncollectible amounts for trade receivables are $15,982 as of December 31, 2018.

4. Due from Others
   This account includes amounts owed from governmental grants and other settlements.

5. Fuel Inventory
   Reported fuel inventory is non-ethanol gasoline, diesel fuel, aviation gasoline, and jet fuel held at the Port's marina fuel dock and airport fuel island as of December 31, 2018. Inventory has been valued based on the First In First Out (FIFO) method of accounting, which approximates fair market value.

6. Prepaid Expenses
   Prepaid expenses represent amounts paid in advance for items of future benefit. The amount reported on the Statement of Net Position primarily consists of prepaid insurance for the Port's property and general liability coverage.

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

8. Compensated Absences
   In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Port accrues a liability for compensated absences.

   Vacation pay, which may be accumulated up to a 24-month accrual, is payable upon separation of employment or death. Sick leave may accumulate up to 960 hours. Upon separation without cause and a minimum of ten years of service, employees are paid for accumulated sick leave at 50% of their final balance, but not more than 480 hours. At December 31, 2018, the recorded liability for unpaid vacation and sick leave was $277,151 and is included in the Statement of Net Position under Accrued Liabilities.

9. Unearned Income
   This account includes amounts recognized as receivables (assets) but not revenues because the revenue recognition criteria have not been met and consists primarily of customer deposits.

10. Long-Term Debt – See Note 9, Long-Term Liabilities

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *continued*

11. 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 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.

12. Deferred Inflows/Outflows of Resources

    In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the Port reports separate sections for these items on the Statement of Net Position. Deferred outflows represent a consumption of net assets that applies to a future period(s); conversely, deferred inflows represent an acquisition of net assets that applies to a future period(s). As of December 31, 2018, the Port recorded deferred outflows of resources and deferred inflows of resources of $403,714 and $713,602, respectively.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

A. Treasury Function

   At the direction of the Port Auditor, the Skagit 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. A Commission resolution provides general guidance and policy direction for all investments of Port funds. This resolution, in combination with state statutes and the Treasurer's investment policy, serves as the template for the investment of all Port funds.

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 bank deposits and certificates of deposit are entirely 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 to be cash equivalents and are reported at cost.

C. Investments

   Investments, stated at fair value, are based on quoted market prices in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in the fair-value of an investment is recognized as an increase or decrease to the investment asset and investment income. As required by state law, all investments of Port funds are obligations of the

   U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of state and local government, or certificates of deposit with PDPC qualified banks and savings and loan institutions.

**NOTE 2 - DEPOSITS AND INVESTMENTS** – *continued*

All investments are purchased directly from financial institutions or through broker relationships. Investments purchased through brokers are deposited into a "safekeeping" account in the Port's name administered by Wells Fargo Bank, N.A.

**Investments Measured at Amortized Cost**

As of December 31, 2018, the Port had the following investments measured at amortized cost:

| | Amortized Cost | | | |
|---|---|---|---|---|
| Investment Type | Maturities | Port's Own Investment | Investments Held by Port as Agent for Others | Total |
| Local Government Investment Pool | Less than 1 year | $8,043,161 | $ - | $8,043,161 |
| Money Market Funds | Less than 1 year | $1,957,978 | $ - | $1,957,978 |
| **Total** | | **$10,001,139** | **$ -** | **$10,001,139** |

**Investments Measured at Fair Value**

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

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

As of December 31, 2018, the Port had the following investments measured at fair value:

| | Fair Value | | | |
|---|---|---|---|---|
| Investment Type | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| U.S. Agency | $903,713 | $ - | $ - | $903,713 |
| **Total** | **$903,713** | **$ -** | **$ -** | **$903,713** |

<u>Interest rate risk</u>

Interest rate risk is the risk that changes in interest will adversely affect the fair market value of an investment. Through the Treasurer's investment policy, the Port manages its exposure to fair market value losses arising from increasing interest rates by laddering its investments by maturity.

**NOTE 2 - DEPOSITS AND INVESTMENTS** – *continued*

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

Custodial 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. The Port conducts all investment transactions, except the LGIP, on a delivery-verses-payment (DVP) basis with all securities purchased through broker relationships and delivered to Wells Fargo, N.A. who serves as the Port's third party custodian.

Investments 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 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.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates 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 the GASBS 79 for external investments pools 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.

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.

**NOTE 3 - PROPERTY TAXES**

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

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

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. (State law allows for the sale of property for failure to pay taxes.) Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

**NOTE 3 - PROPERTY TAXES**– *continued*

The Washington State Constitution and RCW 84.55.010 limit the rate any port in the state of Washington is permitted to levy up to $0.45 per $1,000 of assessed valuation for general governmental purposes. The law also limits the annual growth any port may levy from one year to the next. Currently, the Port is permitted to levy a maximum levy of up to $0.23 per $1,000 and may also levy taxes at a lower rate.

The Port's regular levy for 2018 was $0.10 per $1,000 on an assessed valuation of $6,502,520,774 for a total regular levy of $649,000. In 2017, the regular levy was $618,987.

**NOTE 4 - CAPITAL ASSETS AND DEPRECIATION**

A. Major expenditures (defined by the Port as those in excess of $5,000) for capital assets and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

   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 government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired and has included such assets within the applicable account.

   Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives using the straight-line method. Buildings and improvements are assigned lives of 20 to 50 years; equipment 5 to 10 years; and software and furniture and fixtures 3 to 7 years.

B. Capital assets activity for the year ended December 31, 2018 was as follows:

| | Beginning Balance 12/31/2017 | Increases | Decreases | Ending Balance 12/31/2019 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | 19,664,530 | - | - | 19,664,530 |
| Construction in progress | 726,857 | 2,651,966 | (2,098,402) | 1,280,421 |
| Total capital assets, not being depreciated: | 20,391,387 | 2,651,966 | (2,098,402) | 20,944,951 |
| Capital assets being depreciated: | | | | |
| Facilities | 67,508,789 | 1,896,494 | - | 69,405,283 |
| Machinery and Equipment | 4,761,750 | 38,598 | (64,419) | 4,735,929 |
| ***Total capital assets being depreciated*** | 72,270,539 | 1,935,092 | (64,419) | 74,141,212 |
| Less accumulated depreciation for: | | | | |
| Facilities | 36,264,830 | 1,888,522 | - | 38,153,352 |
| Machinery and Equipment | 2,956,541 | 393,162 | (55,920) | 3,293,783 |
| ***Total accumulated depreciation*** | 39,221,371 | 2,281,684 | (55,920) | 41,447,135 |
| **Total capital assets, being depreciated, net:** | **$ 33,049,168** | **$ (346,592)** | **$ (8,499)** | **$ 32,694,077** |

## NOTE 5 – CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2018. These projects include:

| PROJECT | AMOUNT SPENT TO DATE |
|---|---|
| A Dock Demo & Replacement | $ 458,760 |
| P/Q Dock Extension | 16,067 |
| Weblocker Electrical Upgrade | 16,119 |
| Pumpout Float Expansion | 12,066 |
| S. Basin Parking Lot | 270 |
| B Dock Steel Piling Cathodic Protection | 119,228 |
| Airport Fuel Tanks Cathodic Protection | 5,162 |
| Events Center at CSM | 71,071 |
| Curtis Wharf Steel Piling Cathodic Protection | 79,795 |
| Pier 1 Piling Repair | 22,569 |
| Curtis Wharf Fender Rubboard | 467,804 |
| Facilities Shop Electrical Upgrade | 11,221 |
| O Ave Laydown Area Development | 289 |
| **Total Construction In Progress** | **$ 1,280,421** |

## NOTE 6 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

## NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2018:

| **Aggregate Pension Amounts – All Plans** | | |
|---|---|---|
| Pension liabilities | $ | (1,204,345) |
| Pension assets | $ | - |
| Deferred outflows of resources | $ | 260,748 |
| Deferred inflows of resources | $ | (468,849) |
| Pension expense/expenditures | $ | 63,046 |

**State Sponsored Pension Plans**

Substantially all of the 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.

**NOTE 7 - PENSION PLANS** – *continued*

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

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

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

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

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

<u>Contributions</u>
The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

**NOTE 7 - PENSION PLANS** – *continued*

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

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

* For employees participating in JBM, the contribution rate was 12.26%.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

**NOTE 7 - PENSION PLANS** – *continued*

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

| **PERS Plan 2/3** | | |
|---|---|---|
| **Actual Contribution Rates:** | **Employer** | **Employee*** |
| January – August 2018: | | |
| PERS Plan 2/3 | 7.49% | 7.38% |
| PERS Plan 1 UAAL | 5.03% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | varies |
| **Total** | **12.70%** | **7.38%** |
| September – December 2018: | | |
| PERS Plan 2/3 | 7.52% | 7.41% |
| PERS Plan 1 UAAL | 5.13% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | varies |
| **Total** | **12.83%** | **7.41%** |

* For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

The Port's actual PERS plan contributions were $128,496 to PERS Plan 1 and $190,568 to PERS Plan 2/3 for the year ended December 31, 2018.

**Actuarial Assumptions**

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

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018.

**NOTE 7 - PENSION PLANS** – *continued*

Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

**Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**

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

**NOTE 7 - PENSION PLANS** – *continued*

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|---|---|---|
| Fixed Income | 20% | 1.70% |
| Tangible Assets | 7% | 4.90% |
| Real Estate | 18% | 5.80% |
| Global Equity | 32% | 6.30% |
| Private Equity | 23% | 9.30% |
| | **100%** | |

**Sensitivity of Net Pension Liability**

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

| | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|---|---|---|---|
| PERS 1 | $ 994,183 | $ 808,977 | $ 648,552 |
| PERS 2/3 | $ 1,808,423 | $ 395,368 | $ (763,179) |

**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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, the Port reported a total pension liability of $1,204,345 for its proportionate share of the net pension liabilities as follows:

| | Liability |
|---|---|
| PERS 1 | $ 808,977 |
| PERS 2/3 | $ 395,368 |

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

| | Proportionate Share 6/30/17 | Proportionate Share 6/30/18 | Change in Proportion |
|---|---|---|---|
| PERS 1 | 0.018188% | 0.018114% | (0.000074%) |
| PERS 2/3 | 0.023390% | 0.023156% | (0.000234%) |

**NOTE 7 - PENSION PLANS** – *continued*

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

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

**Pension Expense**

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

| | Pension Expense |
|---|---|
| PERS 1 | $ 66,960 |
| PERS 2/3 | $ (3,914) |

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

| PERS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ - |
| Net difference between projected and actual investment earnings on pension plan investments | $ - | $ (32,148) |
| Changes of assumptions | $ - | $ - |
| Changes in proportion and differences between contributions and proportionate share of contributions | $ - | $ - |
| Contributions subsequent to the measurement date | $ 66,531 | $ - |
| TOTAL | $ 66,531 | $ (32,148) |

| PERS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 48,459 | $ (69,220) |
| Net difference between projected and actual investment earnings on pension plan investments | $ - | $ (242,616) |
| Changes of assumptions | $ 4,625 | $ (112,519) |
| Changes in proportion and differences between contributions and proportionate share of contributions | $ 42,777 | $ (12,346) |
| Contributions subsequent to the measurement date | $ 98,356 | $ - |
| TOTAL | $ 194,217 | $ (436,701) |

**NOTE 7 - PENSION PLANS** – *continued*

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | PERS Plan 1 |
|---|---|
| 2019 | $ 1,406 |
| 2020 | $ (7,028) |
| 2021 | $ (21,088) |
| 2022 | $ (5,438) |
| **TOTAL** | **$ (32,148)** |

| Year ended December 31: | PERS Plan 2/3 |
|---|---|
| 2019 | $ (26,550) |
| 2020 | $ (73,864) |
| 2021 | $ (143,951) |
| 2022 | $ (50,439) |
| 2023 | $ (15,802) |
| Thereafter | $ (30,234) |
| **TOTAL** | **$ (340,840)** |

**NOTE 8 - RISK MANAGEMENT**

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

To limit exposure, the Port maintains commercial insurance coverage against most normal hazards except for unemployment insurance where it has elected to become self-insured through the Washington State Employment Security Department on a reimbursement basis. No reserve for self-insurance has been established as the potential liability is not considered to be material to the financial statements.

The Port participates in an insurance buying group which is brokered through a contract with Alliant Insurance Services, Inc. The policy has been tailored for the risk management needs of public port authorities. General liability coverage is in effect to a limit of $1 million per occurrence ($3 million general aggregate) with a $10,000 deductible. Excess liability coverage is in effect with a limit of $50 million over the first $1 million of loss.

Commercial property replacement cost coverage with a total insured value of $125.8 million with a deductible of $10,000 is in effect. In addition, the Port maintains standard business automobile, construction, and boiler and machinery coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 8 - RISK MANAGEMENT**– *continued*

The Port provides medical, vision, dental, life, and long-term disability converge for full-time employees commissioners, and their eligible dependents through standard plans. The Port does not administer any of these plans, and only the dental plan is self-insured. A monthly administrative fee per employee is charged, along with actual claims. In 2018, total dental plan fees and claims paid were $42,035 which was approximately $14,256 less than quoted premiums had the plan not been self- funded. Accordingly, no reserve for self-insurance has been established as the potential liability is not considered to be material to the financial statements.

**NOTE 9 - LONG-TERM LIABILITIES**

A. Long-Term Debt

The Port issues general obligation and revenue bonds to finance the acquisition or construction of capital assets. Bonded indebtedness has also been entered into in prior years to advance refund several general obligation and revenue bonds.

The general obligation bonds currently outstanding are as follows:

| Issue Name and Purpose | Original Amount | Maturity Range | Interest Rate | Amount Outstanding |
|---|---|---|---|---|
| Limited Tax General Obligation Bonds, 2010<br>Purpose: Construction | 4,500,000 | 9/1/2019 - 9/1/2024 | 4.387% - 4.487% | 4,500,000 |
| Limited Tax General Obligation Refunding Bonds, 2012<br>Purpose: Refunding | 5,075,000 | 9/1/2014 - 9/1/2024 | 2.75% - 4.00% | 3,175,000 |
| **Total General Obligation Bonds** | | | | **$ 7,675,000** |

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

| Year Ended December 31, | Principal | Interest |
|---|---|---|
| 2019 | 1,170,000 | 349,890 |
| 2020 | 1,210,000 | 300,420 |
| 2021 | 1,255,000 | 248,538 |
| 2022 | 1,300,000 | 189,613 |
| 2023 | 1,350,000 | 128,592 |
| 2024 | 1,390,000 | 65,215 |
| **Total** | **$ 7,675,000** | **$ 1,282,268** |

There were no outstanding revenue bonds or bond reserves as of December 31, 2018.

**NOTE 9 - LONG-TERM LIABILITIES** – *continued*

B. Net Pension Liability

The net pension liability totaled $1,204,345 as of December 31, 2018. See Note 7 for further discussion of the net pension liability and related deferred outflows and inflows of resources.

C. Environmental Remediation Liability

Current and long-term environmental remediation liability totaled $12,850,244 as of December 31, 2018. See Note 12 for further discussion of pollution remediation obligations.

D. Changes in Long-Term Liabilities

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

| | Beginning Balance 12/31/2017 | Additions | Reductions | Ending Balance 12/31/2018 | Due Within One Year |
|---|---|---|---|---|---|
| G.O. bonds payable | $ 9,020,000 | - | $ (1,345,000) | $ 7,675,000 | $ 1,170,000 |
| Net pension liability | 1,675,726 | - | (471,381) | 1,204,345 | - |
| Environmental remediation | 13,360,334 | - | (510,090) | 12,850,244 | 4,060,985 |
| **Total long-term liabilities** | **$ 24,056,060** | - | **$(2,326,471)** | **$ 21,729,589** | **$ 5,230,985** |

**NOTE 10 - LEASES**

The Port is committed under a lease agreement for the lease of several pieces of office equipment. The lease is considered to be an operating lease for accounting purposes. Total cost for the leases was $17,424 for the year ended December 31, 2018.

The lease expires January 2022. Future minimum lease payment are as follows:

| **Year ended December 31:** | **Lease Payments** |
|---|---|
| 2019 | $ 14,897 |
| 2020 | $ 14,897 |
| 2021 | $ 14,897 |
| 2022 | $ 1,241 |
| **TOTAL** | **$ 45,932** |

## NOTE 11 - RESTRICTED COMPONENT OF NET POSITION

Net Position is segregated into three components: invested in capital assets, restricted, and unrestricted. Items are categorized as restricted when constraints are externally imposed on their use by contract or agreement, or imposed by law through constitutional provisions or enabling legislation. As of December 31, 2018, the Port's net position did not include a restricted component as no such constraints were in place.

## NOTE 12 - POLLUTION REMEDIATION OBLIGATIONS

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution and contamination remediation obligations. These obligations address current or potential future detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007. The Port adopted this standard in 2008.

To date, the Port has identified six contaminated sites on various Port properties that require investigation, and potential remediation, in order to comply with state environmental laws and regulations. As of December 31, 2018, remediation activities at three of these sites is substantially complete. Although the Port may not bear ultimate liability for the contamination at the remaining sites, the Port is presumptively liable as the property owner.

The Port's estimate of its pollution remediation obligations is analyzed by independent environmental consultants annually (using the expected cash flow technique) and has been estimated at $15,968,810 as of December 31, 2018. The Port's historical insurance policy provides unlimited defense and indemnity coverage of $3.5 million, of which $3,118,566 remains. This policy constitutes an unrealizable recovery, which reduces the liability as presented in current and long-term liabilities, totaling $12,850,244. The Port has and will continue to actively pursue cost sharing and cost recovery agreements with current and former tenants, former site operators, the Port's former insurance carriers, the tenants' former insurance carriers and granting agencies. The Port has been extremely successful in negotiating these agreements on the three completed sites, and in partnership with the other liable parties and the Washington State Department of Ecology (DOE), has expended minimal out of pocket costs relative to total remediation expenses. As of December 31, 2018, the Port has estimated realizable recoveries from these agreements (not including DOE grant funds) totaling $2,027,168. The Port estimates $7,837,230 in future expected recoveries that are not yet included on the Statement of Net Position as of December 31, 2018. These amounts consist of estimated future grant reimbursements expected from DOE, and will be recognized as a receivable as the work is performed.

The Port liability will change over time due to changes in cost estimates, changes in technology, and changes in governing laws and regulations. In 2018, the Port recognized a decrease in the accrued net liability in the amount of $2,164,257, primarily as a result of signing a cost share agreement with another liable party, which resulted in a realizable recovery associated with the next phase of remediation expense on that project. During the fiscal year 2018, the Port recorded recoveries in the amount of $417,604, and expended $496,265 in cleanup activities.

**NOTE 13 - 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.

As discussed in Note 9 – Long-Term Liabilities, the Port is contingently liable for repayment of refunded debt.

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

**NOTE 14 – ACCOUNTING AND REPORTING CHANGES**

In June 2017, GASB issued Statement 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outlfows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Port is currently evaluating the effect of this standard on its financial statements and related disclosures.

**NOTE 15 – SUBSEQUENT EVENTS**

On April 19, 2018, the Port Commissioners approved Resolution No. 1334, declaring the two small residential houses, centrally located between Commercial and O Avenues on 3rd Street, surplus to the needs of the Port, and authorizing the Executive Director to dispose of them. In 2015, the Port acquired the property known as the Marine Supply and Hardware Block in support of the Marine Terminal. The Marine Supply and Hardware Block included these two houses on the west half of the property. Following the adoption of Resolution No. 1334, the homes were advertised for public auction, with the requirement that the winning bidder(s) provide a deposit and remove the houses within ninety days of sale. No bidders satisfied the requirements of sale, and in February 2019, the homes were demolished at the Port's expense. The removal of these homes from the Port's financial statements will result in a non-operating loss on disposal of assets in 2019 of approximately $145,000, not including operating expenses related to demolition and disposal of approximately $15,000.

**NOTE 15 – SUBSEQUENT EVENTS**– *continued*

On December 3, 2018, the Port Commissioners approved Resolution No. 1342, authorizing the Executive Director to execute any and all documents necessary to transfer the Olson Building and the property on which it is located to the Anacortes Housing Authority, and Lot 18 (the “Adjacent Lot”) to the City of Anacortes in exchange for an alleyway vacation. The Port obtained the Olson Building and associated property when it purchased the Marine Supply and Hardware Block in 2015 in support of the Marine Terminal. The Anacortes Housing Authority desired to obtain the Olson Building and Adjacent Lot to fulfill its mission of workforce house. The City desired to obtain the Adjacent Lot, vacate an existing alleyway on the Marine Supply and Hardware Block, and transfer the Adjacent Lot to the Anacortes Housing Authority upon vacation. On March 11, 2019, the alleyway vacation was recorded with the City of Anacortes and on March 12, 2019, the sale of the Olson Building, and the property on which it is located, to the Anacortes Housing Authority closed. These transactions will result in a non-operating loss on disposal of assets in 2019 of approximately $665,000.

On January 31, 2019, the Port Commissioners approved Resolution No. 1345 authorizing the Executive Director to purchase the Rockwell property, comprising four parcels adjacent to the Anacortes Airport located at 4015 Airport Road. The property, which is approximately 7.5 acres in size, is zoned light manufacturing and holds strong potential for the Port as support for Airport operations or as an industrial park to further the Port’s mission of job creation. The $1.5 million transaction closed on March 8, 2019 and was funded with property tax funds on hand.

## Introduction

The Port of Anacortes is presenting Required Supplementary Information (RSI) to meet the minimum financial reporting requirements and is an integral part of the accompanying financial statements. RSI generally includes schedules, statistical data, and other information.

**Port of Anacortes**
**Schedule of Proportionate Share of the Net Pension Liability**
**Public Employees' Retirement System Plan 1**
**As of June 30,**
**Last 10 Fiscal Years***

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.016440% | 0.017568% | 0.018188% | 0.018114% | | | | | | |
| Employer's proportionate share of the net pension liability | $859,965 | $943,484 | $863,035 | $808,977 | | | | | | |
| TOTAL | $859,965 | $943,484 | $863,035 | $808,977 | | | | | | |
| Employer's covered employee payroll | $1,884,289 | $2,114,171 | $2,291,088 | $2,411,395 | | | | | | |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 45.64% | 44.63% | 37.67% | 33.55% | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | 59.10% | 57.03% | 61.24% | 63.22% | | | | | | |

**Notes to Schedule:**
*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Port of Anacortes**
**Schedule of Proportionate Share of the Net Pension Liability**
**Public Employees' Retirement System Plan 2/3**
**As of June 30,**
**Last 10 Fiscal Years***

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.021235% | 0.022487% | 0.023390% | 0.023156% | | | | | | |
| Employer's proportionate share of the net pension liability | $758,739 | $1,132,203 | $812,691 | $395,368 | | | | | | |
| TOTAL | $758,739 | $1,132,203 | $812,691 | $395,368 | | | | | | |
| Employer's covered employee payroll | $1,884,289 | $2,114,171 | $2,291,088 | $2,411,395 | | | | | | |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 40.27% | 53.55% | 35.47% | 16.40% | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | 89.20% | 85.82% | 90.97% | 95.77% | | | | | | |

**Notes to Schedule:**
*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Port of Anacortes**
**Schedule of Employer Contributions**
**Public Employees' Retirement System Plan 1**
**As of December 31,**
**Last 10 Fiscal Years***

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Statutorily or contractually required contributions | $84,102 | $105,734 | $115,883 | $128,496 | | | | | | |
| Contributions in relation to the statutorily or contractually required contributions | $(84,102) | $(105,734) | $(115,883) | $(128,496) | | | | | | |
| Contribution deficiency (excess) | - | - | - | - | | | | | | |
| Covered employer payroll | $1,940,212 | $2,216,729 | $2,372,021 | $2,537,780 | | | | | | |
| Contributions as a percentage of covered employee payroll | 4.33% | 4.77% | 4.89% | 5.06% | | | | | | |

**Notes to Schedule:**
*****This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Port of Anacortes**
**Schedule of Employer Contributions**
**Public Employees' Retirement System Plan 2/3**
**As of December 31,**
**Last 10 Fiscal Years***

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Statutorily or contractually required contributions | $107,712 | $138,097 | $160,584 | $190,568 | | | | | | |
| Contributions in relation to the statutorily or contractually required contributions | $(107,712) | $(138,097) | $(160,584) | $(190,568) | | | | | | |
| Contribution deficiency (excess) | - | - | - | - | | | | | | |
| Covered employer payroll | $1,940,212 | $2,216,729 | $2,372,021 | $2,537,780 | | | | | | |
| Contributions as a percentage of covered employee payroll | 5.55% | 6.23% | 6.77% | 7.51% | | | | | | |

**Notes to Schedule:**
*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

# ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

| Contact information for the State Auditor's Office | |
|---|---|
| **Public Records requests** | PublicRecords@sao.wa.gov |
| **Main telephone** | (360) 902-0370 |
| **Toll-free Citizen Hotline** | (866) 902-3900 |
| **Website** | www.sao.wa.gov |