



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Port of Friday Harbor

San Juan County

For the period January 1, 2015 through December 31, 2015

Published August 18, 2016

Report No. 1017279





Washington State Auditor's Office

August 18, 2016

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

Report on Financial Statements and Passenger Facility Charges

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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

**Port of Friday Harbor
San Juan County
January 1, 2015 through December 31, 2015**

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Friday Harbor, San Juan County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated August 12, 2016. As discussed in Note 12 to the financial statements, during the year ended December 31, 2015, the Port implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Port's financial statements will not be prevented,

or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

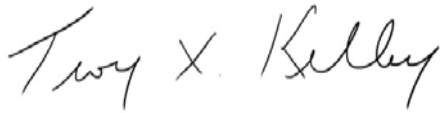
As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 12, 2016

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

**Port of Friday Harbor
San Juan County
January 1, 2015 through December 31, 2015**

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON COMPLIANCE FOR PASSENGER FACILITY CHARGES

We have audited the compliance of the Port of Friday Harbor, San Juan County, Washington, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2015.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Compliance

In our opinion, the Port of Friday Harbor complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

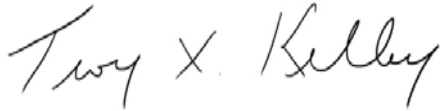
Management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the Port's internal control over compliance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

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

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 12, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Friday Harbor San Juan County January 1, 2015 through December 31, 2015

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Friday Harbor, San Juan County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Friday Harbor, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 12 to the financial statements, in 2015, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 20, and pension plan information on pages 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the

basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

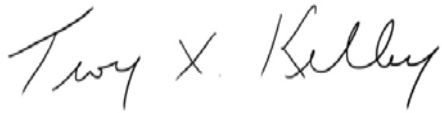
Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2016 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

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

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 12, 2016

FINANCIAL SECTION

**Port of Friday Harbor
San Juan County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – 2015

Schedule of Proportionate Share of the Net Pension Liability – 2015

Notes to Required Supplemental Information – Pension – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Passenger Facility Charges Collected, Held and Used – 2015

Notes to Schedule of Passenger Facility Charges, Collected, Held and Used – 2015

PORT OF FRIDAY HARBOR
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended December 31, 2015

The discussion and analysis of the Port of Friday Harbor's (Port) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements.

The Port of Friday Harbor was created on October 1, 1950 by a vote of the citizens of the Port District, which includes San Juan Island in San Juan County, Washington. San Juan County levies and collects taxes on behalf of the Port. The Port is a special purpose government entity that owns a marina, an airport, two waterfront parks and commercial property on San Juan Island. The Port's mission is "to maintain a healthy economy with family wage jobs, and to improve the social, economic and natural environments of the island."

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

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

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

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

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

USING THE ANNUAL REPORT

Ports perform their accounting and financial reporting for their activities very much like a business. The Port prepares a Statement of Revenue, Expenses and Changes in Net Position, manages operations and plans capital investment strategies. Ports collect revenues from services performed for customers and pay for expenses related to those services.

However, Ports are municipal governments. As such, Ports collect property tax revenues from the property owners within the Port district. These tax revenues go to support the capital investments made by the Port. Ports may also use tax revenues to pay for debt incurred to construct facilities that are used to support Port functions, and for operating expenses of the Port.

The financial statements provide a broad view of the Port's operations in a manner similar to a private sector business. The financial statements take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

The Statement of Net Position (also known as the balance sheet) presents all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in the Port's net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Port's net position changed during the year. The total of revenues less expenses, combined with other non-operating items such as investment income, tax receipts and interest expense, results in a net increase or decrease in the Port's net position for the year.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, and investing and financing activities. A reconciliation of operating income (loss) to net cash provided by operating activities as reflected on the Statement of Revenues, Expenses and Changes in Net Position is also included.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

FINANCIAL ANALYSIS – SUMMARY OF STATEMENT OF NET POSITION

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2015 and 2014, as well as reviewing changes in revenues and expenses reflected in the financial statements.

Summary of Statement of Net Position *				
	2015	2014	Increase (Decrease)	% Change
Current Assets	\$ 3,986,793	\$ 7,143,164	\$ (3,156,371)	-44.19%
Capital Assets	31,471,190	28,599,375	2,871,815	10.04%
Other Noncurrent Assets	454,116	182,213	271,903	149.22%
			-	
Total Assets	35,912,099	35,924,752	(12,653)	-0.04%
Deferred Outflow of Resources	99,017	-	99,017	100.00%
Total Assets and Deferred Outflow	36,011,116	35,924,752	86,364	0.24%
Current Liabilities	820,781	1,819,448	(998,667)	-54.89%
Noncurrent Liabilities	6,949,101	6,222,761	726,340	11.67%
Total Liabilities	7,769,882	8,042,209	(272,327)	-3.39%
Deferred Inflow of Resources	178,586		178,586	100.00%
Net Investment in Capital Assets	25,428,647	22,299,374	3,129,273	14.03%
Unrestricted	2,634,001	5,583,169	(2,949,168)	-52.82%
Total Net Position	28,062,648	27,882,543	180,105	0.65%
Total Liabilities and Net Position	\$ 36,011,116	35,924,752	\$ 86,364	0.24%

* Amounts have been rounded

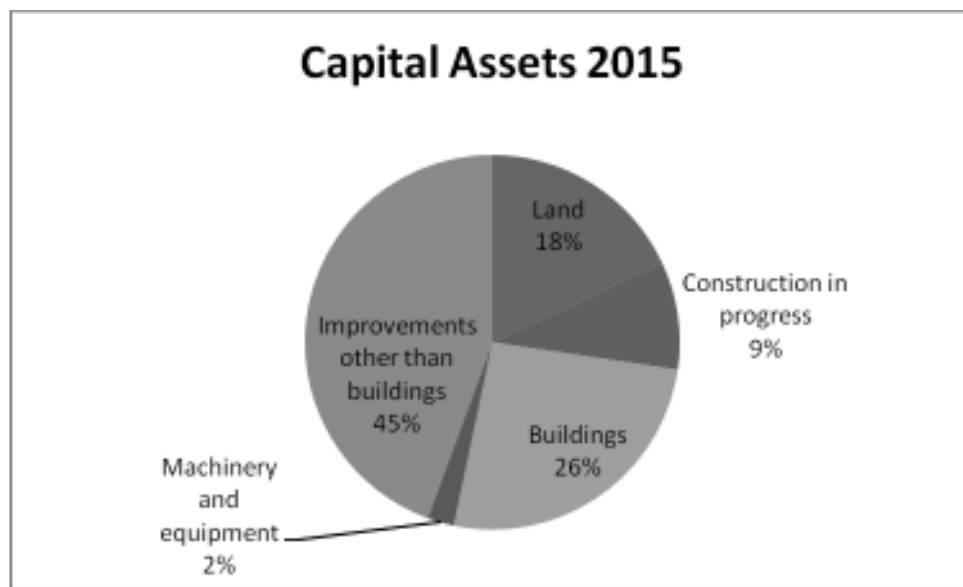
For 2015, the Port's Net Position increased by \$180,105 for a total of \$28,062,648.

CAPITAL ASSETS

The Port maintained capital assets of \$50,687,782 as of 12/31/15

The Port has booked the acquisition of all assets at historical costs on its Statement of Net Position. The Port has received numerous federal, state and local grants to aid in construction of various Port facilities, primarily Federal Aviation Administration Airport Improvement Program funds for the Friday Harbor Airport. GASB 34 requires the Port to capitalize and depreciate all of the assets owned or controlled by the Port, which is done on these financial statements.

See note 4 *Capital Assets and Depreciation*



Capital Asset	2015	2014
Land	\$ 9,161,209	\$ 8,729,014
Construction in progress	4,691,866	7,188,568
Buildings	13,172,966	8,759,354
Machinery and equipment	1,170,907	1,164,301
Improvements other than buildings	22,490,834	20,787,131
	<u>\$ 50,687,782</u>	<u>\$ 46,628,368</u>

For 2015, the Port's current liabilities as of 12/31/2015 are debts that the Port will repay in 2016. The total current liabilities decreased by \$998,667, or 54.89%, in 2015. Current liabilities include payments for expenses already incurred, customer deposits, accrued interest on the Port's bonds, and the principal amount of the bond payments due in 2016.

The Port's non-current liabilities increased by \$726,340, or 11.67% in 2015. This increase is due to a new bond issuance.

See note 9 Long - Term Debt

Summary of Statement of Revenues, Expenses, and Changes in Fund Net Position *				
	2015	2014	Increase (Decrease)	% Change
Airport Operation Revenue	\$ 104,045	\$ 86,532	\$ 17,513	20.24%
Marina Operations Revenue	2,500,293	2,426,439	73,854	3.04%
Property Lease/Rentals Operations Revenue	637,850	605,479	32,371	5.35%
Nonoperating Revenues	462,765	456,405	6,360	1.39%
Total Revenues	3,704,953	3,574,855	130,098	3.64%
Operating Expenses	3,534,959	3,790,187	(255,228)	-6.73%
Nonoperating Expenses	283,182	243,693	39,489	16.20%
Total Expenses	3,818,141	4,033,880	(215,739)	-5.35%
Total Net Income (Loss)	(113,188)	(459,025)	345,837	-75.34%
Capital Contributions	1,326,889	1,086,193	240,696	22.16%
Increase/(Decrease) in Net Position	\$ 1,213,701	\$ 627,168	\$ 586,533	93.52%

* Amounts have been round

REVENUE AND EXPENSES

For 2015, the Port's total operating revenues increased by \$130,098, or 3.64%, over 2014. Airport operation revenues increased by \$17,513 or 20.24%. Marina operation revenues increased by \$73,854 or 3.04%. Property lease and rental operation revenues increased by \$32,371 or 5.35%. The Port's total operating expenses decreased by \$255,228 or 6.73%, over 2014.

Major nonoperating revenues include property tax revenue and interest on investments, which increased by \$6,360 or 1.39%

Non-operating expenses are primarily interest paid on debt, which increased by \$39,489, or 16.20%, from the previous year.

All of the functions of the Port are considered in the numbers shown above, including the cost of general government of the Port District. Since the Port is a special purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance and public meeting expense. All of these expenses of the Port are reported in the Proprietary Fund. The 'one fund' model is used in compliance with the rules of GASB 34 which state that separately issued debt and separately issued classified assets are needed in order for

a separate fund to exist. Most of these governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports.

2015 Budgeted to Actual Comparison Schedule

	<u>Budgeted</u>	<u>Actual</u>
Resources (Inflows)		
Airport	\$ 87,960	\$ 104,045
Marina	2,377,300	2,500,293
Property lease/ rentals	616,584	637,850
Total Operating Revenues	<u>3,081,844</u>	<u>3,242,188</u>
Charges to Appropriations (Outflows)		
General operations	\$ 1,143,607	\$ 1,093,332
Maintenance operations	715,830	735,871
General & Administrative	585,807	462,659
Depreciation	1,250,000	1,243,098
Total Operating Expenses	<u>3,695,244</u>	<u>3,534,960</u>
Change in Operating Fund Balances	<u>\$ (613,400)</u>	<u>\$ (292,772)</u>

ISSUES FACING THE PORT

There are no issues facing the Port that could result in material changes in its financial position in the long term.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Phyllis Johnson, Auditor, at Port of Friday Harbor, P. O. Box 889, Friday Harbor Washington 98250, or by phone at 360-378-2688

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION
December 31, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 912,702
Investments	1,532,084
Taxes receivable	17,388
Accounts receivable, net	69,381
Other receivable	1,323,730
Due from other governments	79,909
Prepaid expenses	<u>51,599</u>
 Total Current Assets	 3,986,793

NONCURRENT ASSETS

Capital assets not being depreciated:	
Land	9,161,209
Construction in progress	<u>4,691,866</u>
	13,853,075
 Capital assets being depreciated:	
Buildings	13,172,966
Improvements other than building	22,490,834
Machinery and equipment	<u>1,170,907</u>
Total Capital Assets Before Accumulated Depreciation	36,834,707
 Less Accumulated Depreciation	 <u>(19,216,592)</u>
 Total Net Capital Assets	 <u>31,471,190</u>

OTHER NONCURRENT ASSETS

Intangible assets, net	<u>454,116</u>
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TOTAL ASSETS	<u>\$ 35,912,099</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred pension outflows	<u>\$ 99,017</u>
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See Accompanying Notes to the Financial Statements

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION, CONTINUED
December 31, 2015

LIABILITIES

CURRENT LIABILITIES

Warrants payable	\$ 404,877
Accrued compensated absences	70,463
Accrued interest payable	7,384
Customer deposits	159,049
Current portion of long-term debt	<u>179,008</u>
Total Current Liabilities	<u>820,781</u>

NONCURRENT LIABILITIES

General Obligation bonds, net	5,942,543
Revenue bond, net	(79,008)
PERS payable	240,186
Net pension liability	<u>845,380</u>
Total Noncurrent Liabilities	<u>6,949,101</u>

Total Liabilities	<u><u>\$ 7,769,882</u></u>
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DEFERRED INFLOWS OF RESOURCES

Deferred pension inflows	<u>178,586</u>
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NET POSITION

Net Investment in Capital Assets	25,428,646
Unrestricted	2,629,001
Restricted	<u>5,000</u>

TOTAL NET POSITION	<u><u>\$ 28,062,647</u></u>
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See Accompanying Notes to the Financial Statements

PORT OF FRIDAY HARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the year ended December 31, 2015

OPERATING REVENUES

Airport operations	\$ 104,045
Marina operations	2,500,293
Property lease/rental operations	<u>637,850</u>
 Total Operating Revenues	 3,242,188

OPERATING EXPENSES

General operations	1,093,332
Maintenance	735,871
General and administrative	462,659
Depreciation	<u>1,243,098</u>
 Total Operating Expenses	 <u>3,534,960</u>

Operating Loss	(292,772)
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NONOPERATING REVENUES (EXPENSES)

Investment income	4,938
Taxes levied for general purposes	454,943
Miscellaneous taxes	2,884
Other nonoperating revenues (expenses)	<u>(283,181)</u>

Total Nonoperating Revenues (Expenses)	<u>179,584</u>
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Income (loss) before other revenues, expenses, gains, losses and transfers	(113,188)
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Capital contributions	<u>1,326,889</u>
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Increase (Decrease) in Net Position	1,213,701
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Net Position as of January 1	<u>27,882,543</u>
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Change in accounting Principle	<u>(1,033,597)</u>
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Net Position beginning as restated	<u>26,848,946</u>
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Net Position as of December 31	<u>\$ 28,062,647</u>
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See Accompanying Notes to the Financial Statements

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 3,219,748
Payments to suppliers	(545,127)
Payments to employees	<u>(1,563,239)</u>
Net cash provided (used) by operating activities	1,111,382

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Property tax received	456,293
Other taxes received	2,884
Grant proceeds restricted to capital items	(8,558)
Grant proceeds not restricted to capital items	9,854
Other receipts and payments	30,884
Cash paid for nonoperating expenses	<u>(2,917)</u>
Net cash provided (used) by non-capital financing activities	488,440

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Capital contributions	1,326,889
Purchase of capital assets	(4,385,300)
Proceeds from capital debt issuance	6,400,000
Principal paid on capital debt	(6,657,457)
Interest paid on capital debt	<u>(276,190)</u>
Net cash provided (used) by capital and related financing activities	(3,592,058)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	3,351,212
Purchase of investments	(3,240,066)
Interest received	<u>4,938</u>
Net cash provided (used) by investing activities	116,084

Net increase (decrease) in cash and cash equivalents	<u>(1,876,172)</u>
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Cash and cash equivalents as of January 1	<u>2,788,874</u>
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Cash and cash equivalents as of December 31	<u><u>\$ 912,702</u></u>
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See Accompanying Notes to the Financial Statements

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS, CONTINUED
For the year ended December 31, 2015

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

Operating income (loss)	\$ <u>(292,772)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	1,243,098
Allowance for uncollectable accounts	1,181
Deferred pension	168,955
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(23,620)
Other current assets	33,484
Warrants payable	(862,314)
Compensated absences	4,936
Customer deposits	33,086
Employee benefits	<u>805,348</u>
Total adjustments and changes	<u>1,404,154</u>
Net cash provided (used) by operating activities	<u>\$ 1,111,382</u>

See Accompanying Notes to the Financial Statements

PORT OF FRIDAY HARBOR
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Port of Friday Harbor was created in 1950 and operates under the laws of the state of Washington applicable to a Port district. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as they are applied to governments.

A. Reporting Entity

The Port of Friday Harbor is a special purpose government that provides commercial property rentals, a marina, and airport facilities to the general public and is supported primarily through user charges (or where the governing body has decided that periodic determination of net income is needed).

The Port is governed by a three member elected commission board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of 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, non-capital financing, capital and related financing and investing activities.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

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

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the Port of Friday Harbor's policy to invest all temporary cash surpluses. At December 31, 2015 the Treasurer was holding \$2,444,078 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

For purposes of the statement of cash flows, the district considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Short-Term Investments - See Note 2, *Deposits and Investments*.

3. Receivables

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

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered. As of December 31, 2015 the customer accounts receivable were \$73,032.

The Port uses the reserve method of accounting for doubtful accounts. As of December 31, 2015, the Port's reserve was \$3,652. The amount of accounts receivable shown in the financial statements is net of this reserve amount. The Port accrues this reserve amount as 5% of accounts receivable.

Interest receivable consists of interest earned on investments.

4. Inventories

The Port expenses office supplies, maintenance parts, inventory and supplies in the period they are acquired. If these items were inventoried, no material change in net income would result.

Restricted Assets

In accordance with the 2015 Revenue Bond resolutions, a separate restricted account is required. Specific debt service reserve requirements are described in Note 9, Long Term Debt.

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

6. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Port records unpaid vacation leave for compensated absences as an expense and liability when incurred. Sick leave is not paid at the time of termination.

Vacation pay, which may be accumulated up to 18 months worth of accrual and is payable upon separation, retirement or death. The accrued compensated absences balance at December 31, 2015 was \$70,463.

7. 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.

8. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

9. Long-Term Debt - See Note 9, *Long-Term Debt*.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits

The Ports deposits and certificate of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC)

Investments

As of December 31, 2015, the Port has the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
State Investment Pool	None	\$2,380,307

NOTE 3 - PROPERTY TAXES:

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

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

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

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

The Port's regular levy for 2015 was \$.17887 per \$1,000 on an assessed valuation of \$2,535,652,064 for a total regular tax of \$453,555.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION:

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial individual cost of more than \$5,000 and an estimated useful life of 3 to 40 years. Such assets are recorded at historical cost or estimated historical cost, where historical cost is not known. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets is included as part of the capitalized value of the assets constructed.

The Port has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the terms of the agreements involved, the federal and state governments could retain an equity interest in these assets. 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.

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance 1/1/15	Increases	Decreases	Ending Balance 12/31/2015
Capital assets, not being depreciated:				
Land	\$ 8,729,014	\$ 432,195	\$ -	\$ 9,161,209
Construction in process	7,188,568	4,385,300	(6,882,003)	4,691,865
Total capital assets, not being depreciated	15,917,582	4,817,495	(6,882,003)	13,853,074
Capital assets being depreciated				
Buildings	8,759,354	4,413,612	-	13,172,966
Improvements other than buildings	20,787,131	1,703,703	-	22,490,834
Machinery and equipment	1,164,301	6,606	-	1,170,907
Intangible assets	329,288	327,402	-	656,690
Total capital assets being depreciated	31,040,074	6,451,323	-	37,491,397
Less accumulated depreciation for :				
Buildings	(6,034,560)	(281,848)	-	(6,316,408)
Improvements other than buildings	(11,126,345)	(868,345)	-	(11,994,690)
Machinery and equipment	(868,088)	(37,407)	-	(905,495)
Intangible assets	(147,074)	(55,500)	-	(202,574)
Total accumulated depreciation	(18,176,067)	(1,243,009)	-	(19,419,076)
Total capital assets being depreciated, net	12,864,007	5,208,224	-	18,072,231
Total capital assets, net	\$ 28,781,589	\$ 10,025,719	\$ (6,882,003)	\$ 31,925,305

Intangible assets appear separately on the Statement of Net Position from our capital asset total, while in the note they are presented in total.

NOTE 5 – CONSTRUCTION COMMITMENTS:

The Port of Friday Harbor has active construction projects as of December 31, 2015. The projects include: Airport capital improvements, building construction, preliminary property purchases, and marina upgrades.

At year-end the Port's construction commitments are as follows:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
Spring Street Landing Building	\$ 2,732,451	\$ 3,062,573
Airport Electrical Upgrade	1,207,863	33,000
Airport Object Free Area (OFA) draining and grading	205,768	55,000
Airport Geographic Information System (AGIS)	51,516	139,284
Airport Environmental Assessment	46,000	169,000
Parcels 56 and 57	18,307	10,000
Parcel 66	12,136	250,000
Main Pier/Breakwater Bridge Replacement	1,085	60,000
Customs Project	413,740	-
Rehabilitate Taxiway E Design Engineering	3,000	-
	<u>\$ 4,691,865</u>	<u>\$ 3,778,857</u>

NOTE 6 - PENSION PLAN:

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 845,380
Deferred outflows of resources	99,017
Deferred inflows of resources	178,585
Pension expense/expenditures	(6,512)

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1				
Actual Contribution Rates:			Employer	Employee*
January	through	June	9.21%	6.00%
2015				
July	through	December	11.18%	6.00%
2015				

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

The Port's actual contributions to the plan were \$43,922 for the year ended December 31, 2015.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3				
Actual Contribution Rates:			Employer 2/3	Employee 2*
January	through	June	9.21%	4.92%
2015				
July	through	December	11.18%	6.12%
2015				
Employee PERS Plan 3				varies

* For employees participating in JBM, the contribution rate was 15.30%

The Port's actual contributions to the plan were \$56,417 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. 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*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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 minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 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 7.5 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 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

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, 2015, 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	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 546,814	\$ 449,128	\$ 365,126
PERS 2/3	1,158,661	396,252	(187,496)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the Port reported a total pension liability of \$845,380 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 449,128
PERS 2/3	396,252

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.009778%	0.008586%	-0.001192%
PERS 2/3	0.012589%	0.011090%	-0.001499%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

Pension Expense

For the year ended December 31, 2015, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (40,218)
PERS 2/3	33,706
TOTAL	\$ (6,512)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	24,572
Contributions subsequent to the measurement date	24,395	-
TOTAL	\$ 24,395	\$ 24,572

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,122	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	105,781
Changes of assumptions	638	
Changes in proportion and differences between contributions and proportionate share of contributions	-	48,232
Contributions subsequent to the measurement date	31,862	-
TOTAL	\$ 74,622	\$ 154,013

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, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2016	\$ (9,523)	\$ (42,906)
2017	(9,523)	(42,906)
2018	(9,523)	(42,906)
2019	3,997	17,465
2020	-	-
Thereafter	-	-

NOTE 7 - RISK MANAGEMENT:

The Port of Friday Harbor is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

NOTE 7 - RISK MANAGEMENT, CONTINUED:

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is

for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 8 - SHORT-TERM DEBT:

The Port current portion of long term debt is \$179,008.

NOTE 9 - LONG-TERM DEBT:

Long-term debt

The Port issues general obligation bonds to finance the acquisition and construction of capital assets. General obligation bonds currently outstanding are as follows:

Purpose	Range	Rate	Amount	Due within one year
Refund 2014 Tax Exempt General Obligation Bond (2015 GO Bond)	2040	3.25%	\$ 6,300,000	\$ 0

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

Year Ending December 31	Principal	Interest
2015	\$ 357,457	\$ 52,325
2016	\$ -	\$ 196,352
2017	\$ -	\$ 195,815
2018	\$ -	\$ 195,815
2019	\$ -	\$ 195,815
2020	\$ -	\$ 196,352
2021	\$ -	\$ 195,815
2022	\$ -	\$ 195,815
2023	\$ -	\$ 195,815
2024	\$ -	\$ 196,352
2025	\$ -	\$ 195,815
2026	\$ 312,734	\$ 195,815
2027	\$ 323,039	\$ 185,510
2028	\$ 333,205	\$ 175,344
2029	\$ 344,664	\$ 163,885
2030	\$ 356,021	\$ 152,528
2031	\$ 367,752	\$ 140,798
2032	\$ 379,517	\$ 129,032
2033	\$ 392,376	\$ 116,174
2034	\$ 405,305	\$ 103,245
2035	\$ 418,660	\$ 89,889
2036	\$ 432,247	\$ 76,302
2037	\$ 446,699	\$ 61,851
2038	\$ 461,418	\$ 47,131
2039	\$ 476,623	\$ 31,927
2040	\$ 492,283	\$ 16,265
Total	\$ 6,300,000	\$ 3,697,782

NOTE 9 - LONG-TERM DEBT, CONTINUED:**Revenue bond debt**

Purpose	Maturity Range	Interest Rate	Original Amount	Due within one year
2015 Revenue Bond for capital projects including Spring Street Landing Building construction	2026	4.39%	\$ 2,500,000	\$ 179,008

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

Year Ending December 31	Principal	Interest
2016	\$ 179,008	\$ 139,627
2017	\$ 215,328	\$ 103,307
2018	\$ 224,912	\$ 93,723
2019	\$ 234,923	\$ 83,712
2020	\$ 245,179	\$ 73,456
2021	\$ 256,292	\$ 62,343
2022	\$ 267,700	\$ 50,935
2023	\$ 279,615	\$ 39,019
2024	\$ 291,988	\$ 26,648
2025	\$ 305,055	\$ 13,578
Total	\$ 2,500,000	\$ 686,348

Changes in Long-Term Liabilities

During the year ended December 31, 2015 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Bond Payable: 2014 G.O. Bond Series A	\$ 6,000,000	\$ -	\$ 6,000,000	\$ -	\$ -
Bond Payable: 2014 G.O. Bond Series B	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ -
Bond Payable: Refunding 2014 G.O. Bond (2015 G.O. Bond)	\$ -	\$ 6,300,000	\$ 357,457	\$ 5,942,543	\$ -
Bond Payable: 2015 Revenue Bond	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000	\$139,627
Total long-term liabilities	\$ 6,300,000	\$ 8,800,000	\$ 6,657,457	\$ 8,442,543	\$139,627

NOTE 10 - CONTINGENCIES AND LITIGATION:

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

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

NOTE 11- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

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

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

The Port implemented GASB 68, Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. As a result of implementing this standard, the Port recognized an adjustment to beginning net position of \$1,033,597, presented as a change in accounting principles.

NOTE 13- OTHER DISCLOSURES:

A. Prior Period Adjustments

None

B. Subsequent Events

None

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION
Washington State Public Employee Retirement Systems
Schedule of Employer Contributions
As of December 31
Last 2 Fiscal Years

PERS 1

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2015	\$ 44,709	\$ (44,709)	\$ -	\$ 999,591	4.47%
2014	42,456	(42,456)	-	1,031,282	4.12%

PERS 2/3

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2015	\$ 57,428	\$ (57,428)	\$ -	\$ 999,591	5.75%
2014	52,526	(52,526)	-	1,031,282	5.09%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION
Washington State Public Employee Retirement Systems
Schedule of Proportionate Share of the Net Pension Liability
As of June 30
Last 2 Fiscal Years

PERS 1

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.008586%	\$ 449,128	\$ 984,029	45.64%	59.10%
2014	0.009778%	492,571	1,068,197	46.11%	61.19%

PERS 2/3

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.011090%	\$ 396,252	\$ 984,029	40.27%	89.20%
2014	0.012589%	254,469	1,068,197	23.82%	93.29%

Port of Friday Harbor
Notes to Required Supplemental Information - Pension

As of December 31
Last Fiscal Year

Note 1: Information Provided

The Port implemented GASB 68 for the year ended December 31, 2015. Therefore, there is no data available prior to fiscal year June 2015.

There are no Port employees participating in the PERS 1 plan in 2014 or 2015; therefore, there is no covered payroll to report under PERS 1.

Note 2: Significant Factors

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

Note 3: Change in contribution rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 9.21% to 11.18% for pay periods beginning July 2015.

PORT OF FRIDAY HARBOR

SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED

	Quarter Ending			
	March 2015	June 2015	Sept. 2015	Dec. 2015
Unexpended passenger facility charges and interest, beginning of period				
Add:				
Passenger Facility Charge Revenue Collected	7,907	5,846	11,742	6,644
Interest Earned	0	0	0	0
	7,907	5,846	11,742	6,644
Expenses/ Expenditures	(7,907)	(5,846)	(11,742)	(6,644)
Unexpended passenger facility charges and interest, end of period	0	0	0	0

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

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

In 2007, the Port completed collection of its first PFC Application of \$226,805 (00-01-C-02-FHR). The Port submitted a second Impose Application request (08-02-C-00-FHR) which was approved by the FAA in November of 2007. This Application is in the amount of \$290,272.

The projects for which the current PFCs are collected were performed between 2000 and 2007. The expenditures shown on the schedule are reimbursements of previous expenditures of local funds on FAA-AIP projects

PORT OF FRIDAY HARBOR

NOTES TO SCHEDULE OF PASSENGER FACILITY CHARGES, COLLECTED, HELD AND USED December 31, 2015

The following are the projects for which PFCs are being collected.

Project Title	Year Completed	PFC Level	Approved PFC
Overlay Runway 16/34	2001	3.00	75,578
Upgrade Perimeter Fence	2004	3.00	26,674
Update Master Plan	2007	3.00	14,967
Acquire Land for Airport Development	2001	3.00	83,672
Acquire Land for Approach Protection	2001	3.00	84,381
PFC Administration	2007	3.00	<u>5,000</u>
Total Approved PFC			290,272

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