



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Friday Harbor

San Juan County

For the period January 1, 2017 through December 31, 2017

Published August 13, 2018

Report No. 1021913





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

August 13, 2018

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,

Pat McCarthy
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, 2017 through December 31, 2017**

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, 2017, 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 3, 2018.

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

August 3, 2018

**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, 2017 through December 31, 2017**

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, 2017.

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, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

August 3, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Friday Harbor San Juan County January 1, 2017 through December 31, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 12.

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, 2017, 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 pension plan information listed on page 12 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 3, 2018 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

August 3, 2018

FINANCIAL SECTION

**Port of Friday Harbor
San Juan County
January 1, 2017 through December 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statements of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2017

Notes to Pension RSI – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Passenger Facility Charges – 2017

Notes to the Schedule of Passenger Facility Charges – 2017

PORT OF FRIDAY HARBOR
Management's Discussion and Analysis
December 31, 2017

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, 2017. 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 scheduled seaplane companies 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Port's financial statements. The Port's financial statements include two components: 1) the Port's basic financial statements, and 2) the notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Port's basic financial statements and can be found following the financial statements of this report.

The basic financial statements include: the *Statement of 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* tell us whether the Port's financial position has improved as a result 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. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is called 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).

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, deferred outflows and liabilities owed at a specific point in time. The difference between the two is reflected as 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 \$28,590,807 (reported as total net position). Despite the recent accounting pronouncement (GASB 68), total net position increased by \$473,259 (1.7%) in comparison with the prior year. This increase is primarily due to the receipt of capital contributions. During 2017 capital contributions totaled \$493,722, the largest in the amount of \$421,458 from the Federal Aviation Administration (FAA), for environmental assessment, obstruction removal and airport master plan update. The Port also received \$30,533 in capital contributions from both San Juan County and Town of Friday Harbor Lodging Tax Advisory Committee Program's to assist establishing an airport terminal office for US Customs and Border Protection.
- Total assets increased by \$177,689 (0.3%) from 2016, primarily from an increase in investments.

- Total liabilities decreased approximately \$499,635 (5.7%) from 2016 due to the payments on Revenue Bond Debt and decrease in net pension liability. The following condensed financial information provides an overview of the Port's financial position for the fiscal years ended December 31:

Summary of Statement of Net Position				
	2017	2016	Increase (Decrease)	% Change
Current and restricted assets	\$ 3,098,149	\$ 2,706,631	\$ 391,518	14.47%
Capital assets, net	34,882,417	35,096,246	(213,829)	-0.61%
Total Assets	37,980,566	37,802,877	177,689	0.47%
Deferred Outflows of Resources	108,980	181,421	(72,441)	-39.93%
Total Assets and Deferred Outflows of Resources	38,089,546	37,984,298	105,248	0.28%
Current liabilities	898,853	464,150	434,703	93.66%
Noncurrent liabilities	8,415,420	9,349,758	(934,338)	-9.99%
Total Liabilities	9,314,273	9,813,908	(499,635)	-5.09%
Deferred Inflow of Resources	184,466	52,842	131,624	249.09%
Net investment in capital assets	26,460,125	26,640,163	(180,038)	-0.68%
Restricted for debt service	126,439	125,295	1,144	100.00%
Unrestricted	2,004,243	1,352,090	652,153	48.23%
Total Net Postion	28,590,807	28,117,548	473,259	1.68%
Total Liabilities, Deferred Inflows of Revenues and Net Position	\$ 38,089,546	\$ 37,984,298	\$ 105,248	0.28%

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 and previous fiscal year as a result of operations. The Port employs an accounting method that records revenue and expenses when they are incurred, regardless of when cash is exchanged. Thus, some revenues and expenses reported in this statement may affect future period cash flows.

Revenues:

- The Port experienced an increase in permanent moorage occupancy at its leasehold facilities.
- The total revenues reported at the Marina increased approximately \$220,794 from the prior year due to increased moorage (up \$120,339 from \$1,425,108 to \$1,545,447) which increased by 8.4%, and increase in passenger vessel counts (98,271 in 2016, and 104,490 in 2017).
- The Ports leased property revenues increased by \$123,774 from the prior year. The increase is primarily due to the successful performance of the Ports anchor tenant in the new Spring Street Landing Building, and the increase of tenants at the airport location.
- Total revenues increased by approximately \$355,405 (9.2%) over 2016 revenues.

Expenses:

- 2017 total operating expenses increased by approximately \$74,327 (1.9%) over 2016 expenses. Primarily due to increased marketing service, and legal costs associated with union negotiations.

Non-Operating Revenues (Expenses):

- Non-operating revenue for the year ended December 31, 2017 was \$499,217 (of which \$473,963 represents property taxes.) Non-operating expense, which is primarily comprised of general obligation bond and revenue bond interest expense, totaled \$296,739 as of year-end.
- Net loss, after depreciation, totaled \$20,513 for the year ended December 31, 2017, compared to an operating loss, after depreciation of \$266,452 for the year ended December 31, 2016. An improvement of \$245,939 (92.3%) over 2016.

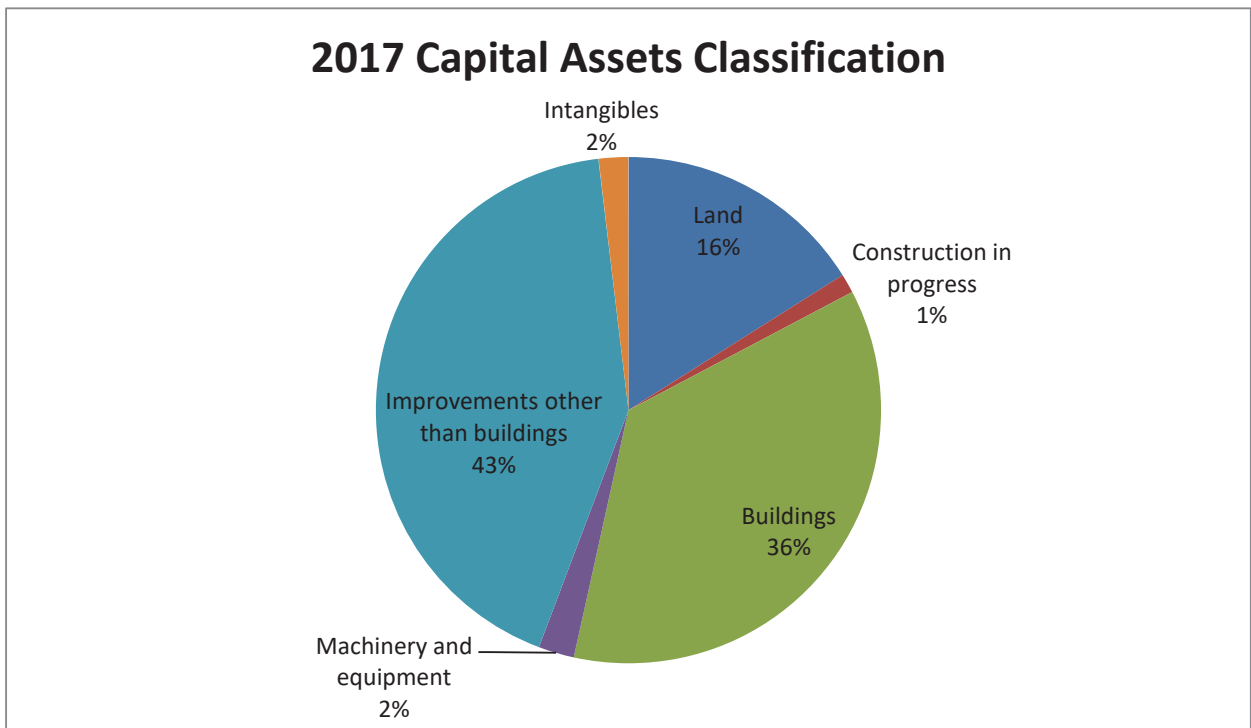
Summary of Statement of Revenue, Expenses and Change in Net Position				
	2017	2016	Increase (Decrease)	% Change
Airport Operation Revenues	\$ 94,964	\$ 106,298	\$ (11,334)	-10.66%
Marina Operation Revenues	2,832,101	2,611,307	220,794	8.46%
Property Lease / Rentals Operation Revenues	792,138	668,394	123,744	18.51%
Nonoperating Revenue	499,214	477,012	22,202	4.65%
Total Revenues	4,218,416	3,863,011	355,405	9.20%
Operation Expenses	3,942,190	3,867,863	74,327	1.92%
Nonoperating Expenses	296,739	261,600	35,139	13.43%
Total Expenses	4,238,929	4,129,463	109,466	2.65%
Total Net Income (Loss)	(20,513)	(266,452)	245,939	-92.30%
Capital Contributions	493,772	735,093	(241,321)	-32.83%
Extraordinary/Special Items	-	(413,740)	413,740	-100.00%
Increase (Decrease) in Net Position	473,259	54,901	418,358	762.02%
Net Position - Beginning	28,117,548	28,062,647	54,901	0.20%
Net Position - Ending	\$ 28,590,807	\$ 28,117,548	\$ 473,259	1.68%

Capital Asset and Debt Administration

Capital Assets

The Port's investment in total net capital assets as of December 31, 2017 totaled \$34,882,417 (net of accumulated depreciation). The Port's investment in capital assets includes land, facilities (structures/buildings), machinery and equipment and construction in progress. The total increase in the Port's investment in capital assets for the current year was \$1,187,344 or 2.1%.

CAPITAL ASSETS	2017	2016
Land	\$ 9,161,209	\$ 9,161,209
Construction in progress	692,783	414,367
Buildings	20,647,856	20,207,979
Machinery and equipment	1,296,276	1,228,959
Improvements other than buildings	24,166,047	24,173,294
Intangibles	1,081,664	672,682
	<u>\$ 57,045,835</u>	<u>\$ 55,858,491</u>



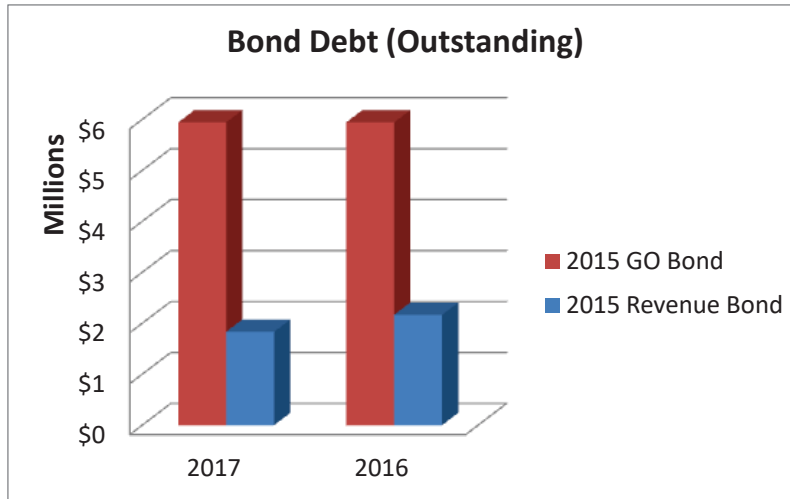
Major capital asset spending during 2017 included the following:

Airport Obstruction Removal	\$	238,815
Airport Master Plan	\$	168,567
F Hangar Rebuild	\$	124,399
G & H Dock Improvement Design	\$	69,654

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

Debt

Long-term bonded debt totaled \$7,774,755 as of December 31, 2017. Of this amount, \$5,942,543 comprises general obligation debt for the Marina Reconstruction Project and \$1,832,212 of revenue bond debt financed for the Spring Street Landing Building. This decreased from 2016 total amount of \$8,106,955 due to scheduled principal payments.



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

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS OF THE PORT

In 2017 the Port was approached by a private shipyard owner regarding the possible acquisition of the property by the Port in order to retain the economic and public resource value for the community. The Port contracted with Whatcom Environmental to perform an Environmental Site Assessment in order to determine the extent of any necessary remediation. The Port also engaged the community through forming a Citizen's Advisory Committee to review the feasibility and economic impact of the prospective purchase.

The Port also began reconstruction of a failing aircraft hangar to address structural issues and resolve stormwater contamination resulting from the aging galvanized steel.

Work began on the Airport Master Plan update, which will determine if the airport ARC status will be upgraded. This will also provide a starting point for a stormwater management upgrade to enable future development on property surrounding the airport. A citizen panel was assembled to participate in the Master Plan development. Additionally, the Phase I Obstruction Removal Project planning was completed, and a contractor was selected to perform the work. This project start was delayed until 2018 due to permitting delays from the Department of Ecology.

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, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$	315,706
Investments		2,350,584
Restricted Assets:		
Cash and cash equivalents		1,439
Investments		125,000
Taxes receivable		16,290
Interest receivable		1,437
Accounts receivable (net of allowance for uncollectibles)		120,526
Due from other governments		108,264
Prepaid expenses		58,904
Total Current Assets		3,098,150

Noncurrent Assets

Capital Assets not being depreciated

Land		9,161,209
Construction in process		692,783

Capital Assets being depreciated

Buildings		20,647,856
Improvements other than buildings		24,166,047
Machinery and Equipment		1,296,276
Intangible assets		647,537
Less: Accumulated depreciation		(21,729,291)
Total Net Capital Assets		34,882,417

TOTAL ASSETS

\$ 37,980,567

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension outflows	\$	108,980
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The Notes to the Financial Statements are in integral part of the Statements

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION
December 31, 2017

LIABILITIES

Current Liabilities

Accounts payable	\$	344,516
Accrued compensated absences		65,827
Accrued interest payable		29,235
Customer deposits		219,661
Current portion of long-term debt		239,613
Total Current Liabilities		898,852

Noncurrent Liabilities

General obligation bonds		5,942,543
Revenue bonds		1,592,599
PERS payable		160,122
Net pension liability		720,156
Total Noncurrent Liabilities		8,415,420

TOTAL LIABILITIES

\$ 9,314,272

DEFERRED INFLOWS OF REOURCES

Deferred pension inflows	\$	184,466
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NET POSITION

Net investment in capital assets		26,460,125
Restricted		126,439
Unrestricted		2,004,243

TOTAL NET POSITION

\$ 28,590,807

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

PORT OF FRIDAY HARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2017

OPERATING REVENUES	
Airport Operations	\$ 94,964
Marina Operations	2,832,101
Property Lease/ Rental Operations	792,138
Total Operating Revenues	<u>3,719,202</u>
 OPERATING EXPENSES	
General operations	1,337,028
Maintenance operations	674,143
General and administrative	529,845
Depreciation	1,401,173
Total Operating Expenses	<u>3,942,190</u>
 NET-OPERATING INCOME	 (222,988)
 NON-OPERATING REVENUES	
Taxes levied for general purpose	473,963
Investment income	22,071
Miscellaneous taxes	3,180
Total Non-Operating Revenues	<u>499,214</u>
 NON-OPERATING EXPENSES	
Interest expense	296,739
 INCOME BEFORE CAPITAL CONTRIBUTIONS	 <u>(20,513)</u>
Capital contributions	<u>493,772</u>
 INCREASE IN NET POSITION	 473,259
NET POSITION - BEGINNING OF PERIOD	<u>28,117,548</u>
NET POSITION - END OF PERIOD	<u><u>\$ 28,590,807</u></u>

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

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOW FROM OPERATING ACTIVITIES

Receipts from customers	\$ 3,650,095
Payments to suppliers	(866,236)
Payments to employees	(1,359,898)
Net cash provided (used) by operating activities	1,423,961

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Property tax received	476,526
Other taxes received	3,181
Grant proceeds restricted to capital items	690,010
Grant proceeds not restricted to capital items	2,390
Net cash provided (used) by non-financing activities	1,172,107

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital grants and contributions	493,772
Purchase and construction of capital assets	(1,212,973)
Refund of capital asset purchase	13,513
Principal paid on capital debt	(332,200)
Interest paid on capital debt	(292,152)
Net cash provided (used) by capital and related financing activities	(1,330,040)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	916,990
Purchase of investments	(2,181,550)
Interest received	22,071
Net cash provided (used) by investing activities	(1,242,489)

Net increase (decrease) in cash and cash equivalents	23,539
Cash and cash equivalents as of January 1	293,606
Cash and cash equivalents as of December 31	\$ 317,145

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

PORT OF FRIDAY HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

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

Operating income (loss)	\$ (222,988)
Adjustments to reconcile operating income (loss):	
Depreciation and amortization	1,401,173
Allowance for uncollectable amounts	2,765
Changes in assets and liabilities:	
(Increase)/decrease in accounts receivable	(55,298)
(Increase)/decrease in other current assets	299,464
Increase/(decrease) in warrants payable	100,149
Increase/(decrease) in compensated absences	3,251
Increase/(decrease) in customer deposits	26,348
Increase/(decrease) in employee benefits payable	(130,903)
Total adjustments	1,646,949
Net cash provided (used) by operating activities	<u>\$ 1,423,961</u>

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

PORT OF FRIDAY HARBOR
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The Port of Friday harbor 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 RCW 43.09. The Port uses the *Budgeting, Accounting and Reporting System for GAAP* in the State of Washington.

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position (or balance sheet). 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 fund.

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

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

C. 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, 2017 the Treasurer was holding \$315,706 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

2. 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, 2017, the customer accounts receivable were \$120,526. One large tenant accounts for approximately 52% of receivable balance, due to the success of their first full year in the Ports new building.

The Port uses the reserve method of accounting for doubtful accounts. As of December 31, 2017, the Port's reserve was \$6,343. 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. Due from other governments

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

5. 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.

6. 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.

7. Restricted Assets

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

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

9. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Port records unpaid vacation leave as an expense and liability when incurred. 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, 2017, was \$65,827.

10. Pensions

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

PERS Payable of \$160,121 represents the purchase of service credits retroactive to the employees' original hire date at the time the Port entered into the Public Employees Retirement State Plan. This commitment will continue for the next 4 years.

11. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

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

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the Port funds on the GAAP basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. Other budgets are adopted at the level of the fund, except in the general (current expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Appropriations for general and special revenue funds lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned). Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

2017 Budgeted to Actual Comparison Schedule

	<u>Budgeted</u>	<u>Actual</u>
Resources (Inflows)		
Airport	\$ 80,900	\$ 94,964
Marina	2,538,479	2,832,101
Property lease/ rentals	624,244	792,138
Total Operating Revenues	<u>3,243,623</u>	<u>3,719,202</u>
Charges to Appropriations (Outflows)		
General operations	\$ 1,206,357	\$ 1,337,028
Maintenance operations	683,180	674,143
General & Administrative	656,767	529,845
Depreciation	1,350,000	1,401,173
Total Operating Expenses	<u>3,896,304</u>	<u>3,942,190</u>
Change in Operating Fund Balances	<u>\$ (652,681)</u>	<u>\$ (222,988)</u>

NOTE 2 – DEPOSITS AND INVESTMENTS:

A. Deposits:

The Port's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution

collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the Port's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool. In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance. In addition, the Pool is subject to annual audits by the Washington State Auditor's Office.

B. Investments

Statutes authorize the Port to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, county investment pool and the state treasurer's investment pool. The Port is also authorized to enter into reverse repurchase agreements however, the Port did not participate in these investments during 2017.

The Port is currently invested in a public funds investment pool, Washington State Local Government Investment Pool (LGIP), which is reported at amortized cost. The LGIP operates in accordance with appropriate state laws and regulations. The LGIP transacts with its participants at a stable net asset value per share and meets the portfolio maturity, quality, diversification, liquidity and shadow pricing requirements that allows it to report at amortized costs. Further, The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission

The weighted average maturities of the LGIP are less than three (3) months with cash available to the Port on demand. The on demand availability of these funds defines them as cash equivalent liquid investments. Cash investments are not subject to interest rate risk or any market value reporting requirements. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third-party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee.

Investments Measured at Amortized Cost

As of December 31, 2017, The Port had \$1,976,318 invested in the LGIP which was measured at amortized cost. These are reported as amortized cost because the State Pool has elected to measure in this manner. The only restriction on withdrawals from the State Investment Pool is when a deposit is received by ACH. In this case, a five-day waiting period exists.

As of December 31, 2017, the Port had the following investments:

<u>Investment</u>	<u>Matures</u>	<u>Value</u>
LGIP	n/a	\$ 1,976,318
Federal Farm Credit Bank *	4/13/2020	\$ 500,705
		\$ 2,477,023

* The Port has elected to measure Federal Farm Credit Bank investment at amortized cost due to the difference being insignificant from fair market value.

The LGIP funds above include \$126,439 of restricted funds, and \$1,849,879 of non-restrictive funds.

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 2017 was \$.18 per \$1,000 on assessed valuation of \$2,655,071,458 for a total regular tax of \$470,051. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION:

A. Capital Assets

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial individual cost of more than \$5,000 and an estimated useful live of 3 to 50 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.

B. Depreciation

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of three to fifty years.

Asset Type	Years Range
Buildings	20-50
Improvements	3-50
Equipment	3-15
Intangibles	5-10

Capital asset activity for the year ended December 31, 2017 was as follows:

Description	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 9,161,209	\$ -	\$ -	\$ 9,161,209
Construction in process	414,367	1,227,124	(948,708)	692,783
Total capital assets, not being depreciated	9,575,576	1,227,124	(948,708)	9,853,992
Capital assets being depreciated				
Buildings	20,207,979	439,877	-	20,647,856
Improvements other than buildings	24,173,294	6,266	(13,514)	24,166,046
Machinery and equipment	1,228,959	67,317	-	1,296,276
Intangible assets	672,682	408,982	-	1,081,664
Total capital assets being depreciated	46,282,914	922,443	(13,514)	47,191,843
Less accumulated depreciation for :				
Buildings	(6,677,811)	(494,285)	-	(7,172,096)
Improvements other than buildings	(12,818,856)	(762,436)	-	(13,581,292)
Machinery and equipment	(936,752)	(39,151)	-	(975,903)
Intangible assets	(328,825)	(105,301)	-	(434,126)
Total accumulated depreciation	(20,762,244)	(1,401,174)	-	(22,163,418)
Total capital assets being depreciated, net	25,520,670	(478,731)	(13,514)	25,028,425
Total capital assets, net	\$ 35,096,246	\$ 748,393	\$ (962,222)	\$ 34,882,417

NOTE 5 – CONSTRUCTION COMMITMENTS:

The Port of Friday Harbor has active construction projects as of December 31, 2017. The projects include: Completion of the Spring Street Landing Building, Airport Environmental Assessment, and Obstruction tree removal. At year-end the Port’s construction commitments are as follows:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
Airport Obstruction Removal	\$ 238,815	\$ 45,415
Airport Master Plan	168,567	364,514
F-Hangar Rebuild	124,399	125,601
D, G & H Dock Improvements	69,654	730,406
M Dock Waler Replacement Project	22,880	15,000
Jensen's Shipyard Site Assessment	5,183	53,202
Main Pier Cantilever Repair	14,730	25,200
Activity Float Design & Purchase	15,113	134,887
Parcels 56 and 57	18,307	10,000
Parcel 66	12,136	250,000
Taxiway "E" Rehabilitation	3,000	-
	<u>\$ 692,783</u>	<u>\$ 1,754,225</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 2017:

Pension Liabilities	\$ 720,156
Deferred outflows of resources	\$ 108,980
Deferred inflows of resources	\$ 184,466
Pension expense/expenditures	\$ (1,613)

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that

includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January – June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

PERS Plan 1 (continued)		
Actual Contribution Rates:	Employer	Employee
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

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

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

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

Contributions

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

employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
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%

The Port’s actual PERS plan contributions were \$48,573 to PERS Plan 1 and \$68,240 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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 *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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.

- For all plans, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average remaining service lives calculation was revised.

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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2017, 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%	4.90%
Real Estate	15%	5.80%

Global Equity	37%	6.30%
Private Equity	23%	9.30%
Total	100%	

Sensitivity of the Net Pension Liability/ (Asset)

The table below presents the Port’s proportionate share of the net pension liability calculated using the discount rate of 7.5 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 Rate 7.5%	1% Increase 8.5%
PERS 1	451,739	370,828	300,741
PERS 2/3	941,127	349,328	(135,563)

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, 2017, the Port reported a total pension liability of \$720,156 for its proportionate share of the net pension liabilities as follows:

Plan	Liability
PERS 1	370,828
PERS 2/3	349,328

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.00881%	0.00782%	-0.00100%
PERS 2/3	0.01131%	0.01005%	-0.00125%

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.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	(29,707)
PERS 2/3	28,093

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	(13,838)
Contributions subsequent to the measurement date	26,172	-
TOTAL	26,172	(13,838)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	35,395	(11,489)
Net difference between projected and actual investment earnings on pensions plan investments	-	(93,123)
Changes of assumptions	3,711	-
Changes in proportion and differences between contributions and proportionate share of contributions	4,730	(66,015)
Contributions subsequent to the measurement date	38,972	-
TOTAL	82,808	(170,627)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	35,395	(11,489)
Net difference between projected and actual investment earnings on pensions plan investments	-	(106,961)
Changes of assumptions	3,711	-
Changes in proportion and differences between contributions and proportionate share of contributions	4,730	(66,015)
Contributions subsequent to the measurement date	65,144	-
TOTAL	108,980	(184,465)

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, 2018. 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
2018	(9,354)	(56,467)
2019	2,953	(940)
2020	(686)	(14,992)
2021	(6,752)	(44,780)
2022	-	(4,179)
Thereafter	-	(5,432)

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, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund 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, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is 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.

For the last three years, no settlements have exceeded insurance coverage.

NOTE 8 – LONG-TERM DEBT:

A. Long-term debt

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

Purpose	Maturity Range	Interest Rate	Original Amount	2018 Installment
Refund 2014 Tax Exempt General Obligation Bond (2015 GO Bond)	2040	3.25%	\$ 6,300,000	\$ -

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

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

Year Ending December 31	Principal	Interest
2018	\$ -	\$ 195,815
2019	\$ -	\$ 195,815
2020	\$ -	\$ 196,352
2021	\$ -	\$ 195,815
2022	\$ -	\$ 195,815
2023-2027	\$ 635,773	\$ 969,307
2028-2032	\$ 1,781,159	\$ 761,587
2033-2037	\$ 2,095,287	\$ 447,461
2038-2040	\$ 1,430,324	\$ 95,323
Total	\$ 5,942,543	\$ 3,253,290

Revenue bond debt

Purpose	Maturity Range	Interest Rate	Original Amount	2018 Installment
2015 Revenue Bond for capital projects including Spring Street Landing Building construction.	2026	4.39%	\$ 2,500,000	\$ 239,613

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

Year Ending December 31	Principal	Interest
2018	\$ 239,613	\$ 81,551
2019	\$ 244,960	\$ 70,886
2020	\$ 250,427	\$ 60,147
2021	\$ 256,015	\$ 48,837
2022	\$ 261,728	\$ 37,441
2023-2025	\$ 579,469	\$ 41,420
Total	\$ 1,832,212	\$ 340,283

For the past few years the Port has made additional principal payments of \$100,000 in order to accelerate the pay off of the Revenue Bond.

Changes in Long-Term Liabilities

During the year ended December 31, 2017 the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Bond Payable: Refunding 2014 G.O. Bond (2015 G.O. Bond)	\$ 5,942,543	\$ -	\$ -	\$ 5,942,543	\$ -
Bond Payable: 2015 Revenue Bond	\$ 2,164,412	\$ -	\$ (332,200)	\$ 1,832,212	\$ 239,613
Net Pension Liability	\$ 1,042,049	\$ -	\$ (321,893)	\$ 720,156	\$ -
PERS Payable	\$ 200,154	\$ -	\$ (40,032)	\$ 160,122	\$ 40,032
Total long-term liabilities	\$ 9,349,158	\$ -	\$ (694,125)	\$ 8,655,033	\$ 279,645

- The General Obligation Bond is interest only for the first ten (10) years, allowing the Port to pay down on the Revenue Bond first, which is a higher interest rate.
- PERS Payable of \$160,122 represents the purchase of service credits retroactive to the employees' original hire date at the time the Port entered into the Public Employees Retirement State Plan.

NOTE 9 – CONTINGENCIES AND LITIGATION:

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Port will have to make payment. In the opinion of management, the Port's

insurance policies are adequate to pay all known or pending claims. We continue to monitor the claim situation and maintain legal contact with the insurance company.

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

NOTE 10 – RESTRICTED COMPONENT OF NET POSITION:

The Port has a restricted component of net position in the amount of \$126,439 as required by revenue bond resolution.

NOTE 11 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

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

NOTE 12- OTHER DISCLOSURES

The Port implemented GASB 82, *Pension Issues*. This statement amends GASB statements No. 67, No. 68 and No. 73 to enhance consistency in the application of financial reporting requirements related to certain pension issues. This standard made changes to how the Port reported covered payroll in Required Supplementary Information.

NOTE 13- SUBSEQUENT EVENTS

The Port has evaluated events subsequent to the fiscal year-ended December 31, 2017 and has identified no items meeting the requirements for disclosure.

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

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
2017	0.007815%	\$ 370,828	\$ 985,879	37.61%	61.24%
2016	0.008813%	\$ 473,300	\$ 1,047,823	45.17%	57.03%
2015	0.008586%	\$ 449,128	\$ 984,029	45.64%	59.10%
2014	0.009778%	\$ 492,571	\$ 1,068,197	46.11%	61.19%

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

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
2017	0.010054%	\$ 349,328	\$ 985,879	35.43%	90.97%
2016	0.011308%	\$ 569,349	\$ 1,047,823	54.34%	85.82%
2015	0.011090%	\$ 396,252	\$ 984,029	40.27%	89.20%
2014	0.012589%	\$ 254,469	\$ 1,068,197	23.82%	93.29%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Employer Contributions
PERS 1
As of December 31
Last Four Fiscal Years

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

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
 Schedule of Employer Contributions
 PERS 2/3
 As of December 31
 Last Four Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	\$ 68,240	\$ (68,240)	\$ -	\$ 990,279	6.89%
2016	65,560	(65,560)	-	1,052,322	6.23%
2015	57,428	(57,428)	-	999,591	5.75%
2014	52,526	(52,526)	-	1,031,282	5.09%

Port of Friday Harbor

Notes to Required Supplemental Information – Pension

As of December 31
Last Four Fiscal Years

Note 1: Information Provided

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

Note 2: Significant Factors

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

Note 3: Covered payroll

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

Note 4: Change in contribution rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 11.18% to 12.70% for pay periods beginning July 2017.

Port of Friday Harbor

Schedule of Passenger Facility Charges Collected, Held and Used
December 31, 2017

	2017			
	March	June	Sept.	Dec.
Unexpended passenger facility charges and interest, beginning of period				
Passenger Facility Charge Revenue Collected	\$ 4,347	\$ 5,268	\$ 7,199	\$ -
Interest Earned	-	-	-	-
	<u>4,347</u>	<u>5,268</u>	<u>7,199</u>	<u>-</u>
Expenses/Expenditures	<u>(4,347)</u>	<u>(5,268)</u>	<u>(7,199)</u>	<u>-</u>
Unexpended passenger facility charges and interest, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 was in the amount of \$290,272 and expired in August of 2017. A new application has been approved by the FAA in the amount of \$104,345 and collection will begin April 1, 2018.

The projects for which the new PFCs will be collected were performed between 2014 and 2017. The expenditures shown on the schedule are reimbursements of past expenditures of local funds on FAA-AIP projects.

Port of Friday Harbor

Schedule of Passenger Facility Charges Collected, Held and Used
December 31, 2017

The following are the projects for which PFCs were being collected in 2017.

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

The following are the projects for which PFCs will be collected for in 2018 under a new application.

Project Title	PFC Level	Approved PFC
Airport Electrical Upgrade	4.50	\$ 67,275
West Side Tiedown Relocation	4.50	\$ 6,877
Runway 34 Object Free Area Grading & Drainage improvements	4.50	\$ 9,903
AGIS Survey	4.50	\$ 9,540
Enviromental Assessment for Phase 1 Obstruction Removal	4.50	<u>\$ 10,750</u>
Total Approved PFC		\$ 104,345

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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