



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

**Port District No. 1 of Chelan County
(Port of Chelan County)**

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

Published September 16, 2019

Report No. 1024588





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

September 16, 2019

Board of Commissioners
Port of Chelan County
Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Chelan County January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Port of Chelan County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the business-type activities and the aggregate discretely presented component units in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Port.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Port’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program

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

The Port qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**INDEPENDENT AUDITOR'S REPORT 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 Chelan County
January 1, 2018 through December 31, 2018**

Board of Commissioners
Port of Chelan County
Wenatchee, 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 business-type activities and the aggregate discretely presented component units of the Port of Chelan County, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 4, 2019. As discussed in Note 11 to the financial statements, during the year ended December 31, 2018, the Port implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the Port began reporting the Pangborn Memorial Airport as a discretely presented component unit.

Our report includes a reference to other auditors who audited the financial statements of the Confluence Technology Center Condominium Association (the Association), as described in our report on the Port's financial statements. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Association were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Association.

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 opinions 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 cursive script that reads "Pat McCarthy". The signature is written in black ink and is positioned above the printed name.

Pat McCarthy

State Auditor

Olympia, WA

September 4, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Port of Chelan County
January 1, 2018 through December 31, 2018**

Board of Commissioners
Port of Chelan County
Wenatchee, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Port of Chelan County, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2018. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

The Port's basic financial statements include the operations of the Pangborn Memorial Airport, which expended \$996,302 in federal awards, all of which is included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2018. Our audit, described below, did not include the operations of the Pangborn Memorial Airport because it has arranged for a separate audit of its federal awards in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the

United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 4, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Chelan County January 1, 2018 through December 31, 2018

Board of Commissioners
Port of Chelan County
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Port of Chelan County, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 16.

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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Confluence Technology Center Condominium Association, which represents less than one percent, less than one percent and 12 percent, of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Confluence Technology Center Condominium Association, is based solely on the report of the other auditors.

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. The financial statements of Confluence Technology Center Condominium Association were not audited in accordance with *Government Auditing Standards*.

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 opinions.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Port of Chelan County, as of December 31, 2018, and the respective changes in financial position and, where applicable, 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 11 to the financial statements, in 2018, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2018, the Port began reporting the Pangborn Memorial Airport as a discretely presented component unit. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 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 opinions on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2019 on our consideration of the Port's internal control over financial reporting and

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 4, 2019

FINANCIAL SECTION

Port of Chelan County January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2018

Schedule of Changes in Total OPEB Liability and Related Ratios – PEBB – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018

Notes to Schedule of Expenditures of Federal Awards – 2018

Introduction

The following is the Port District of Chelan County's (the Port District) Management's Discussion and Analysis of financial activities and the performance for the calendar year ended December 31, 2018. The discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port District and to identify any significant changes in financial position. Information contained in the MD&A has been prepared by Port District management and should be considered in conjunction with the financial statements and notes.

The notes to the financial statements are essential to a full understanding of data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

Background

The Port District is a special purpose municipal government that was established by the voters in 1958. It was originally established "to do all things necessary and proper to promote the extension of barge traffic to Rock Island and beyond, to prepare for the development of water transportation facilities and water recreation facilities, and to promote, develop, and encourage the industrial development of Chelan County." In 1958 this represented the most realistic avenue for economic growth and development in the North Central Washington area. Severe environmental restrictions on the Columbia River, even at that time, prevented the development of water transportation efforts, as originally planned. Since that time, the primary focus of the Port District has been redirected to various avenues of economic development throughout Chelan County. This is reflected by a process of continuous evaluation of new economic development opportunities to capitalize on Chelan County's economic growth potential.

A three-member Port Commission governs the Port District. All the Commissioners are elected by voters within the district. All Commission members serve six-year terms that are staggered so that normally one Commissioner is elected every two years. Port Commission districts are identical to those of the Chelan County Commission. Each Commission district includes a significant portion of the Wenatchee urban area.

The Commission sets policy and delegates authority for the day-to-day operations of the Port District to its Executive Director and staff. The Port District office is located in the Olds Station Business Park in Wenatchee.

Background - continued

With the exception of Pangborn Memorial Airport, the Port District's real estate holdings are all located within Chelan County. Chelan County is the 3rd largest county (in land area) in the State of Washington, with population currently estimated at 76,500. Approximately 88% of the total land area within the county is under the ownership and control of the state and federal government. Additionally, much of the county is hilly or mountainous, concentrating major development along the Wenatchee and Columbia River valleys.

The Port District began to acquire property in the Olds Station area of Chelan County in 1959. From the late 1960's through 1996, the Port District purchased then-orchard land in the Olds Station area, eventually creating a 100-acre campus for business and industrial development at the confluence of the Wenatchee and Columbia Rivers (the Port of Chelan County Olds Station Business Park). At the end of 2018, 27 acres of the original property is still owned by the Port District and is undeveloped. Thirteen industrial, warehouse, and office facilities have been constructed on this property to attract tenants who would expand the local economy by direct investment and the creation of jobs primarily associated with the production of goods and services sold to consumers outside of the region.

Additional properties have been purchased over the past decades:

(a) The former Peshastin Mill, a 61-acre site on the Wenatchee River near Leavenworth, west of Wenatchee in April of 2003. In 2016, the Port sold 14 acres (the Riparian Parcel) on the Peshastin waterfront to the Complete the Loop Coalition in furtherance of the Port's commitment to permanent public access to the Wenatchee River from the property. The remaining 47 acres (the upland parcels) were sold in 2016 to a private developer.

(b) the former Cashmere Mill Site, a 32.5 acre parcel, in January of 2008, which was annexed into the City of Cashmere in April of 2010. In 2017, the Port sold 3.53 acres to Louws Truss, Inc., and in 2018, the Port began construction of two 16,500 square foot buildings for light industrial uses on a portion of the remaining properties.

(c) In June of 2010, the Port District acquired 2.45 acres on Wenatchee's riverfront, which formerly housed a steel fabrication plant (Pybus Property). The Port entered into a lease and economic development agreement with the Pybus Market Charitable Foundation to facilitate the redevelopment of the Pybus Property. The property was redeveloped into the Pybus Public Market and was declared surplus and subsequently sold to the Foundation in 2017. In 2018, the Port leased 1,950 square feet of space in the Pybus Market Annex from the Pybus Market Charitable Foundation, performed tenant improvements to create business incubator space, and then subleased to a Seattle-based software company for an 18-month term.

Background - continued

The Port District has been acknowledged as an early leader in recognizing the positive economic development benefits of tourism. The Tourism Action Group (TAG) was organized in 1989, comprised of working professionals within the tourism and hospitality industry charged with the goal of creating a county-wide promotional effort, including the communities of Chelan, Leavenworth, Cashmere, Wenatchee, and Entiat. The Port District allocated as much as \$150,000 annually to this effort. TAG spawned greater efforts within each community to market their own communities more efficiently and effectively. As individual communities generated additional resources to promote tourism (primarily in the form of increased lodging tax collections), the Port District decreased its funding for TAG, and the group disbanded in 2002. The Port continues to provide strong financial support of tourism through partnership agreements with local Chambers of Commerce and through direct investment in wine and agricultural tourism efforts.

Chelan County Development Corporation (CCDC) - The Port District formed the CCDC as a means to obtain industrial revenue bonding (IRB) for qualifying manufacturing and processing businesses in the area. Examples of projects financed by IRB's include: Alcoa pollution control improvements, Manson Growers reconstruction and expansion, and Morel Foundry construction in Entiat. IRB's are rarely issued, but CCDC serves this economic development function as the opportunity arises. CCDC industrial revenue bonds do not require the Port to function as lender or guarantor.

Pangborn Memorial Airport - In 1965, the City of Wenatchee (owner of Pangborn Memorial Airport at the time) transferred ownership of the property to the Port District. In 1974, the Port of Douglas County (PODC) acquired an undivided, ½ interest in the airport after the runway had been extended to 5,500 feet. The original agreement between the Port District and PODC was amended over the years. Pursuant to a 2003 Joint Operating Agreement (JOA), effective January 1, 2004, the PODC managed the industrial property within airport boundaries, and the Port District managed all airport operations and airside properties. In 2013, the Port District signed a memorandum of understanding (MOU) with the PODC to modify their relationship regarding the operation and funding of Pangborn Memorial Airport. Pursuant to the MOU, the Port of Chelan County currently acts as the Governing Board for the Airport with all rights of the Governing Board under the 2003 agreement. The MOU will limit the PODC's management and leasing oversight to the PODC industrial park (the Airport has rights to the airside lots) and the CWICC building. In 2018, with the expiration of the MOU, the original JOA once again became the governing document.

Background - continued

In 2013, a major runway expansion project commenced at Pangborn. This project extended the existing runway 700 feet and allowed the recapture of 600 feet of existing runway that was not usable due to a displaced threshold, resulting in a 7,000 foot runway. This longer runway will provide improved service with the current commercial airline and corporate jets and open up opportunities for other commercial aircraft to serve the region to additional destinations. The acquisition of real estate necessary for the expansion was completed in 2014, along with clearing and grading of property and rerouting of utilities to allow relocation of Grant Road and expansion of the runway in later phases of the project. The realignment of Grant Road was completed in 2015, and accepted by Douglas County in 2016. The construction was completed in 2016, and, following FAA review and grant close-out, the runway extension project was finalized in early 2018.

Lake Chelan Airport - The concept for an airport in Chelan was born in 1931 by the Chelan Chamber of Commerce. It was developed into a rugged airstrip and evolved into an FAA (Federal Aviation Administration) approved operation, with the Port District currently providing joint-funding. The airport primarily serves recreational aircraft in the resort community. The airport is operated by the City of Chelan, with the Port contributing approximately \$43,500 annually toward the airport's deficit.

Miscellaneous - Throughout the 1970s, '80s, and early '90s, the Port District partnered with the National Park Service and US Forest Service to construct and maintain a number of docks on the upper shores of Lake Chelan. These docks were vital to serving the tourism industry of the region where boating and camping are a vital part of the county economy. The Port District also participated financially in a rafting put-in/take-out ramp on the Wenatchee River in Cashmere and in the development of Blackbird Island Park in Leavenworth.

The Port has contributed funding to partner with the cities of Wenatchee, Entiat, and Chelan for marina planning and construction, as well as matching funds for a rail platform for scheduled Amtrak service in Leavenworth. The Port has also made capital contributions to support tourism in Leavenworth and Chelan. In Leavenworth, the Port helped purchase the building that houses the Leavenworth Chamber of Commerce. In Chelan, the Port contributed funding to an entrepreneurship center in the Chelan Chamber offices.

Overview of the Financial Statements

The Port District falls under the control of the Governmental Accounting Standards Board (GASB). Since the Port District is comprised of a single enterprise fund, no fund level financial statements are shown nor required.

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows.

Overview of the Financial Statements - continued

The statement of net position and the statement of revenues, expenses and changes in net position provide the Port District with an overall financial position and results of operations to assist the user in assessing whether that financial position has improved or deteriorated as a result of the annual activities. Over time, increases or decreases in net position may serve as an indicator of whether the Port District is financially stable or if there is a going concern.

The statement of revenues, expenses and changes in net position show how the Port District's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities. A reconciliation of the cash provided by operating activities to the Port District's operating income, as reflected on the statement of revenues, expenses and changes in net position, is also included.

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

Financial Analysis of the Port District

In 2008, the Port District closed on the transaction to purchase a 32.5-acre parcel of commercial/industrial land in Cashmere, Washington known as the Cashmere Mill Site, and began site clearing and redevelopment. In 2012, the Port District received an allocation of \$1.5 million from the Washington State Legislature for the redevelopment of the Cashmere Mill Site. This was augmented by an additional \$3.38 million from the Washington State Legislature for wood waste removal and remediation of the Cashmere Mill Site in 2013 and 2014. In 2017, 3.53 acres of the site was sold to a truss company, who built an industrial building to expand their manufacturing to the Wenatchee Valley. In addition, the Port began construct of two 16,500 square foot industrial buildings on the site in 2018.

Following a variety of engineering, feasibility studies and public meetings, steps were taken that led to the acquisition in 2010 of a significant parcel of land located in the south node of the City of Wenatchee Waterfront Redevelopment plan. The redevelopment of the site into Pybus Market was completed in 2013, including a long term lease with Pybus Market Charitable Foundation. The redevelopment was supported by an assignment of a HUD grant from the City of Wenatchee to the Port District, and other agreements with the City involving the local revitalization financing district formed by the City. In 2016, the site was declared surplus to the Port District's needs, and, in 2017, the property was sold to the Charitable Foundation. In 2018, the Port leased 1,950 square feet of space in the Pybus Market Annex, performed tenant improvements to create business incubator space, and then subleased to a Seattle-based software company for an 18-month term.

An Overview of the Port District Financial Position and Operations

The Port District's overall financial position and operations for the past two years are summarized in the following table based on the information included in the current and prior financial statements. These figures include Chelan County Development Corporation as a blended component.

TABLE 1
STATEMENTS OF NET POSITION

	2018	2017
Current and other assets	\$ 13,203,483	\$ 13,093,966
Restricted assets	1,449	1,273
Net capital assets	27,450,617	23,635,162
Total assets	\$ 40,655,549	\$ 36,730,401
Deferred outflows	\$ 77,342	\$ 94,058
Current liabilities	\$ 1,783,652	\$ 1,322,982
Noncurrent liabilities	7,070,964	4,522,498
Total liabilities	\$ 8,854,616	\$ 5,845,480
Deferred inflows	\$ 163,597	\$ 108,930
Net investment in capital assets	\$ 21,388,337	\$ 19,507,290
Restricted	1,449	1,273
Unrestricted	10,324,892	11,361,486
Total net position	\$ 31,714,678	\$ 30,870,049

See accompanying notes

An Overview of the Port District Financial Position and Operations - continued

Total Assets

The Port District's total assets, including component unit, at December 31, 2018 increased by \$3,925,148. This increase is due primarily to the construction of industrial buildings in Cashmere, which incurred \$3,791,200 in costs prior to year-end. During 2018, The Port also invested \$682,960 in rehab work to industrial building #5 and \$186,500 in leasehold improvements in the Pybus Annex.

Total Liabilities

Total liabilities increased by \$3,009,136 during 2018. This increase reflects a new bond being issued for \$3,000,000 in order to finance the construction of buildings in Cashmere, in addition to increased accounts payable and retainage related to the construction contract at year-end.

Total Net Position

Financial position increased as the change in net position amounted to \$844,629 during 2018. The increase is due to net income of \$1,497,343, reflected below, net of a \$652,714 reduction due to adoption of GASB Statement #75, Other Postemployment Benefits, retroactively.

TABLE 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2018	2017
Revenues	<u> </u>	<u> </u>
Operating revenues	\$ 2,789,410	\$ 2,848,885
Other operating revenues	306,345	207,591
Nonoperating revenues	3,017,002	2,917,417
Capital grants	<u>1,495,644</u>	<u>369,339</u>
Total revenues	7,608,401	6,343,232
Expenses		
Operating expenses	3,780,206	3,901,867
Nonoperating expenses	<u>2,330,852</u>	<u>5,529,153</u>
Total expenses	<u>6,111,058</u>	<u>9,431,020</u>
Change in net position	<u>\$ 1,497,343</u>	<u>\$ (3,087,788)</u>

See accompanying notes

An Overview of the Port District Financial Position and Operations - continued

Major Factors Affecting the Statement of Revenue, Expenses and Change in Net Position

Income increased from 2017 to 2018, which reflects an increase in capital grants. The Port received \$500,000 from Chelan County toward the Cashmere Mill buildings project as well as an increase in FAA grant funds being passed through to Pangborn Memorial Airport. Both operating and nonoperating expenses decreased in part due to a loss on sale of property in 2017.

Economic Factors

Chelan County and North Central Washington experienced increasing property values, as well as a boost in construction and other economic activities in 2018. The overall 2018 unemployment rate set a record low in the local economy with an average of 4.9%. New jobs had a 2.6% growth rate, with construction, health care, and leisure and hospitality seeing the most job growth. The agricultural sector, notably tree fruit, and tourism continued to expand, providing more jobs and revenue to the region.

Wages still lag behind the state average, due to the large number of seasonal jobs in the agricultural and hospitality sectors.

The Port District has continued to “bank” unused property tax levy which could be used if conditions warrant in the future.

Request for Information

This financial report is designed to provide a general overview of the Port District’s finances and to show accountability of public funds. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Port District of Chelan County, Washington
Attn: Monica Lough, Director of Finance & Administration
238 Olds Station Road, Suite A
Wenatchee, WA 98801

Port District of Chelan County, Washington
STATEMENT OF NET POSITION
December 31, 2018

ASSETS AND DEFERRED OUTFLOWS

	Port District	Confluence Technology Center Condominium Association	Pangborn Memorial Airport
CURRENT ASSETS			
General investment fund (Note 2)	\$ 11,679,991	\$ -	\$ 56,480
General fund	386,324	-	104,883
Bank accounts	354,122	28,659	6,957
Petty cash	100	-	1,063
Total unrestricted cash	12,420,537	28,659	169,383
Accounts receivable	70,531	79,801	85,249
Grants receivable	65,641	-	68,271
Taxes receivable (Note 3)	75,787	-	-
Prepaid expenses	280,330	23,675	57,858
Fuel inventory	-	-	95,096
Total current assets	12,912,826	132,135	475,857
NONCURRENT ASSETS			
Net pension asset	-	-	34,717
Restricted assets (Note 2)			
Bond redemption fund	1,449	-	-
Passenger facility fund	-	-	693,224
Total restricted assets	1,449	-	693,224
Capital assets (Note 4)			
Land and improvements	11,350,126	-	50,570,725
Buildings	24,637,165	-	6,597,911
Furniture and equipment	1,803,178	-	4,075,435
Construction in progress	3,843,063	-	234,646
Total	41,633,532	-	61,478,717
Less accumulated depreciation	14,182,915	-	18,483,232
Total capital assets	27,450,617	-	42,995,485
Other noncurrent assets			
Investment in Lake Chelan Airport (Note 9)	203,401	-	-
Reserves for CTC			
Condo Association	87,256	-	-
Total other noncurrent assets	290,657	-	-
TOTAL ASSETS	\$ 40,655,549	\$ 132,135	\$ 44,199,283
DEFERRED OUTFLOWS			
Pension	\$ 71,773	\$ -	\$ 100,481
Other Postemployment Benefits	5,569	-	2,973
Total deferred outflows	\$ 77,342	\$ -	\$ 103,454

Port District of Chelan County, Washington

STATEMENT OF NET POSITION

December 31, 2018

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	Port District	Confluence Technology Center Condominium Association	Pangborn Memorial Airport
CURRENT LIABILITIES			
Accounts payable	\$ 1,070,976	\$ 70,702	\$ 107,809
Grants payable	65,641	-	-
Retainage in escrow	164,821	-	322
Compensated absences	17,189	-	42,935
Accrued taxes	73,951	-	15,314
Accrued interest	39,440	-	416
Long-term debt payable within one year [Note 8]	340,535	-	9,851
Unearned rents (assessments)	11,099	48,224	-
Total current liabilities	1,783,652	118,926	176,647
NONCURRENT LIABILITIES			
Long-term debt payable after one year [Note 8]	5,556,924	-	9,851
Pension liability [Note 6]	378,895	-	378,633
Other postemployment benefits [Note 5]	649,137	-	693,660
Lessee deposits	486,008	-	106,314
Total noncurrent liabilities	7,070,964	-	1,188,458
TOTAL LIABILITIES	\$ 8,854,616	\$ 118,926	\$ 1,365,105
DEFERRED INFLOWS			
Pension	\$ 163,597	\$ -	\$ 160,380
NET POSITION			
Net investment in capital assets	\$ 21,388,337	\$ -	42,975,461
Restricted	1,449	-	693,224
Unrestricted	10,324,892	13,209	(891,443)
TOTAL NET POSITION	\$ 31,714,678	\$ 13,209	\$ 42,777,252

See accompanying notes

Port District of Chelan County, Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2018

	Port District	Confluence Technology Center Condominium Association	Pangborn Memorial Airport
OPERATING REVENUES			
Rentals [Note 9]	\$ 2,389,811	\$ -	\$ 994,250
Tenant reimbursements	399,599	-	28,624
Airport operations	-	-	1,178,185
Association dues	-	585,552	-
Total operating revenue	2,789,410	585,552	2,201,059
OPERATING EXPENSES			
Olds Station Business Park			
Property insurance	68,935	18,810	-
Maintenance and repairs	146,347	113,359	-
Utilities	59,283	110,836	-
Fire protection	13,937	-	-
Depreciation	853,194	-	1,911,595
Salaries	827,490	-	722,911
Commissioners' per diem	55,426	-	-
Condominium association dues	422,710	-	-
Video conference supplies & cleaning	42,366	-	-
Fuel service operations	-	-	990,849
Employee benefits	154,188	-	157,149
Professional services			
Legal	198,572	74	27,209
Accounting	223	6,550	312
Engineering	50,438	-	-
Computer	143,840	8,938	55,621
Video conference center operator	128,410	-	-
Contract labor	-	168,917	2,543
State audit	19,609	-	22,377
Other consulting	154,219	8,782	58,530
Taxes - payroll	94,494	-	69,161
Business development and marketing	177,602	-	15,117
Utilities	19,928	9,582	122,124
Maintenance and repairs	17,666	40,008	177,715
Community relations	4,311	-	-
Land lease expense	-	-	37,253
Subscriptions and memberships	34,782	-	4,958
Insurance	30,278	-	88,984
Conferences and meetings	22,211	1,700	34,057
Travel	16,926	1,709	-
Office expenses	18,158	15,598	28,118
Contract janitorial and supplies	-	78,078	11,580
Auto expenses	4,534	-	49,835
Other expenses	129	818	36,146
Total operating expenses	3,780,206	583,759	4,624,144

Port District of Chelan County, Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2018

	Port District	Confluence Technology Center Condominium Association	Pangborn Memorial Airport
OPERATING LOSS BEFORE OTHER OPERATING REVENUES AND EXPENSES	\$ (990,796)	\$ 1,793	\$ (2,423,085)
OTHER OPERATING REVENUES			
Miscellaneous revenue	306,345	-	-
OPERATING LOSS	(684,451)	1,793	(2,423,085)
NONOPERATING REVENUES			
Taxes levied [Note 3]	2,752,570	-	-
Operating grants	57,186	-	563,199
Investment income	199,666	7	1,366
Passenger facility charges	-	-	282,063
Gain from Lake Chelan Airport	-	-	-
Leasehold & timber tax revenue	7,580	-	-
Gain on disposal of assets	-	-	33,483
Advertising income	-	-	11,734
Total nonoperating revenues	3,017,002	7	891,845
NONOPERATING EXPENSES			
Interest expense	176,168	-	3,049
Loss from Lake Chelan Airport	266,128	-	-
Community Partnership Projects	37,218	-	-
Economic Development Projects	251,310	-	-
Loss on disposal of assets	89,692	-	-
Election Costs	-	-	-
Total nonoperating expenses	820,516	-	3,049
INCOME (LOSS) BEFORE OTHER REVENUES (EXPENSES)	1,512,035	1,800	(1,534,289)
OTHER REVENUES (EXPENSES)			
Capital grants	1,495,644	-	1,152,730
Support of discrete component unit	(1,510,336)	-	-
Total other revenues (expenses)	(14,692)	-	1,152,730
CHANGES IN NET POSITION	1,497,343	1,800	(381,559)
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY REPORTED	30,870,049	11,409	43,794,491
ADJUSTMENT FOR RETROSPECTIVE APPLICATION OF NEW ACCOUNTING PRINCIPLE [Note 11]	(652,714)	-	(635,680)
NET POSITION - BEGINNING OF YEAR, AS ADJUSTED	30,217,335	11,409	43,158,811
NET POSITION - END OF YEAR	\$ 31,714,678	\$ 13,209	\$ 42,772,252

See accompanying notes

Port District of Chelan County, Washington
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

	Port District	Confluence Technology Center Condominium Association	Pangborn Memorial Airport
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,800,786	\$ 592,017	\$ 2,226,640
Payments to suppliers	(2,278,631)	(591,015)	(1,916,604)
Payments to employees	(893,427)	-	(836,493)
Other receipts	306,345	-	-
Net cash provided (used) by operating activities	(64,927)	1,002	(526,457)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Taxes collected for Port District operations	2,769,730	-	-
Cash paid to Panborn Memorial Airport	(1,640,015)	-	-
Cash paid to Lake Chelan Airport	(70,523)	-	-
Payments for other noncapital projects	(288,528)	-	-
Receipt of passenger facility charges	-	-	282,063
Operating grants	73,410	-	494,928
Miscellaneous	-	-	9,814
Net cash provided (used) by noncapital financing activities	844,074	-	786,805
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfer to bond redemption fund	(176)	-	-
Capital passenger facility fund	-	-	(63,975)
Capital grants received	1,625,323	-	1,178,297
Proceeds from bond issued	3,000,000	-	-
Payments on bonds issued	(1,114,901)	-	-
Payments on long-term debt	(99,853)	-	(38,634)
Interest and loan fees paid	(173,321)	-	(3,401)
Acquisition of capital assets	(3,979,700)	-	(1,374,306)
Proceeds from disposal of capital assets	-	-	33,483
Net cash provided (used) by capital and related financing activities	(742,628)	-	(268,536)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	222,064	7	1,366
Transfer to condo association reserve	(12,539)	-	-
Net cash provided by investing activities	209,525	7	1,366
NET INCREASE (DECREASE) IN CASH	246,044	1,009	(6,822)
CASH - BEGINNING OF YEAR	6,213,532	27,650	176,205
CASH - END OF YEAR	<u>\$ 6,459,576</u>	<u>\$ 28,659</u>	<u>\$ 169,383</u>

Port District of Chelan County, Washington
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

	Port District	Confluence Technology Center Condominium Association	Pangborn Memorial Airport
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (684,451)	\$ 1,793	\$ (2,423,085)
Noncash expenses			
Depreciation	853,194	-	1,911,595
Pension	(93,233)	-	(73,387)
Other postemployment benefits	(9,146)	-	7,679
(Increase) decrease in operating assets			
Receivables	(18,273)	4,908	11,922
Prepaid expenses	(206,147)	7,200	(3,974)
Fuel inventory	-	-	2,049
Increase (decrease) in operating liabilities			
Accounts payable	72,750	(14,456)	(33,217)
Compensated absences	(10,511)	-	3,114
Accrued taxes	1,241	-	(1,567)
Unearned rents (assessments)	1,585	1,557	-
Lessee deposits	28,064	-	13,659
Net cash provided (used) by operating activities	<u>\$ (64,927)</u>	<u>\$ 1,002</u>	<u>\$ (526,457)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets included in accounts payable	<u>\$ 629,479</u>	<u>\$ -</u>	<u>\$ (8,348)</u>

See accompanying notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

The Port District was incorporated by consent of the voters within Chelan County in November 1958, and operates under the laws of the State of Washington applicable to port districts. The Port District is a special purpose government that provides industrial park, airport, tourism and economic development services 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 District is governed by an elected three member commission. As required by GAAP, management has considered all potential component units in defining the reporting entity. These financial statements present the Port District (the primary government) and its component units. The component units discussed below are included in the Port District's reporting entity because of the significance of their operational or financial relationships with the Port District.

Component units

In conformity with GAAP, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended component units -

The Chelan County Development Corporation (CCDC), an entity legally separate from the Port District, is governed by a three-member board comprised of the commissioners of the Port District. For financial reporting purposes, CCDC is reported as if it were part of the Port District's operations because it shares the same governing body as the Port District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Component units - continued

Discretely presented component units -

The Confluence Technology Center Condominium Association (the Association), an entity legally separate from the Port District, is governed by a three member board: two members are appointed by the Port District (one of which is a Commissioner), and one member is appointed by the Chelan County Public Utility District. The Association is fiscally dependent on the Port District because the Association's operational budget is subject to Port District approval. The Association is reported in a separate column to emphasize that it is legally separate from the Port District. In 2018, the Port District paid \$422,710 in condominium association dues to the Association.

Pangborn Memorial Airport (the Airport), an entity legally separate from the Port District, is governed by the three Commissioners of the Port District and the three Commissioners of the Port of Douglas County. In addition, the Airport is fiscally dependent on the Port District because the Airport's operational and capital budgets are subject to Port District approval, as well as providing significant operational and capital funding. The Association is reported in a separate column to emphasize that it is legally separate from the Port District. In 2018, the Port District provided \$514,691 in capital and operating contributions to the Airport. In the years 2013 through 2017, the Airport was reported as a blended component unit, due to a different organizational structure being in place.

Complete financial statements of the individual component units can be obtained directly from their administrative offices:

Chelan County Development Corporation
238 Olds Station Road, Suite A
Wenatchee, WA 98801

Confluence Technology Center Condominium Association
238 Olds Station Road, Suite A
Wenatchee, WA 98801

Pangborn Memorial Airport
One Pangborn Drive
East Wenatchee, WA 98802

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Basis of accounting and reporting

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

C. Assets, liabilities and net position

1. Cash and cash equivalents

It is the Port District's policy to invest cash reserves. The Port District's cash reserves are annually allocated by the Port Commission for a variety of purposes, including land acquisition, facilities and infrastructure construction, Airport operations and capital projects, and an emergency operations and maintenance reserve. At December 31, 2018, the Chelan County Treasurer was holding \$11,679,991 in short-term investments. This amount is classified on the statement of net position as unrestricted cash, although it has been internally reserved by the Commission to fund the above-referenced reserve accounts.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Assets, liabilities and net position - continued

2. Short-term investments

See Note 2.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (see Note 3). Because property taxes are considered liens on property, no estimated uncollectible amounts are established.

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. The Port District utilizes the reserve method for recording bad debts. All of the accounts included in the statement of net position are considered collectible and, therefore, no allowance for doubtful accounts is presented.

4. Inventories

Inventories are valued at cost using the first-in, first-out method, which approximates the market value.

5. Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Port District records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to 30 days, is payable upon resignation, retirement, or death.

Sick leave may accumulate up to 60 days, and is not payable upon resignation or termination of employment, other than retirement. If an employee retires under the Public Employees Retirement System (PERS), at the time of termination of employment, the Port District shall contribute an amount equal to 25% of the value of accrued unused sick leave to a Voluntary Beneficiary Association (VEBA) account. In addition, for those employees that start the calendar year with the maximum hours

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Assets, liabilities and net position - continued

5. Compensated absences - continued

of sick leave accrued, and during the year use less sick leave than the amount accrued, will also receive a contribution of 25% of the excess accrual to a VEBA account.

6. 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.

7. Deferred compensation

On December 20, 1983, the Chelan County Commissioners adopted the Washington State employees deferred compensation plan for Port District employees effective March 1984. The annual contribution limits are the lesser of \$18,500 or 100% of the employee's gross salary.

8. Use of estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

Cash on hand of as December 31, 2018 was \$5,756,304. The carrying amount of the Port District's deposits, including certificates of deposit, was \$6,547,783 and the bank balance was \$6,547,783.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of failure of a depository financial institution, the Port District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Port District's deposits and certificates of deposit are mostly covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Foreign Currency Risk

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. The Port District follows state law, which does not allow foreign deposits.

Investments

Investments are subject to the following risks:

Interest Rate Risk

Interest rate risk is the risk the Port District may face should interest rate variances affect the fair value of investments. The Port District invests through the Chelan County Treasurer's office, and therefore follows County investment policies. Through this investment policy, the Port District manages its exposure to the risk that the fair value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The policy is that the weighted average of the portfolio will have a maturity date of less than five years.

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

Investments - continued

Interest Rate Risk - continued

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities		\$ -	\$ -	\$ -	\$ -
Corporate Bonds		-	247,930	-	-
Municipal Bonds		-	2,728,171	-	-
U.S. Agencies		1,988,130	996,730	-	-
Total Debt Securities		<u>\$ 1,988,130</u>	<u>\$ 3,972,831</u>	<u>\$ -</u>	<u>\$ -</u>
Other Securities					
Certificates of Deposit	<u>\$ 791,478</u>				
Total Other Securities	<u>\$ 791,478</u>				

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The state investment pool does not have a credit rating. The Port District holds corporate and municipal bonds with S&P ratings of AA+ and AAA. The County has a policy related to credit risk, which is followed by the Port District.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty the Port District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Port District does not own any unregistered/uninsured securities.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single user. The Port District does not have a large amount of investments with any single user.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Port District does not own any investments that are subject to foreign exchange rates.

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

Investments in Local Government Investment Pool (LGIP)

The Port District is a participant in the Local Government Investment Pool as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, and online at <http://www.tre.wa.gov>.

Investments Measured at Fair Value

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

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;

Level 3: Unobservable inputs for an asset or liability.

Port District of Chelan County, Washington
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

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

	Fair Value Measurement Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level			
Corporate Bonds	\$ -	\$ 247,930	\$ -
Municipal Bonds	-	2,728,171	-
U.S. Agencies	-	2,984,860	-
Total investments measured at fair value	-	5,960,961	-
Investments measured at amortized cost			
State Local Government Investment Pool (LGIP)	-	4,927,552	-
Certificates of Deposit	-	791,478	-
Total investments measured at amortized cost	-	5,719,030	-
Total Investments in Statement of Net Position	<u>\$ -</u>	<u>\$ 11,679,991</u>	<u>\$ -</u>

NOTE 3 - PROPERTY TAXES

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar

January 1	Tax is 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.

NOTE 3 - PROPERTY TAXES - continued

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. 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 District may levy up to \$.45 per \$1,000 of assessed valuation for general governmental services. The Port District may also levy taxes at a lower rate.

The Port District's regular levy for 2018 was \$0.24895 per \$1,000 on an assessed valuation of \$11,083,349,991 for a total regular levy of \$2,759,196. In 2017, the regular tax levy was \$2,693,169 computed at a levy rate of \$0.26001.

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

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

- A. Capital assets are defined by the Port District as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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.

The Port District has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port District has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method. Buildings and improvements are assigned lives of 10-40 years; equipment 3-10 years; and furniture and fixtures 3-10 years.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION - continued

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

	Beginning Balance 01/01/18	Increases	Decreases	Ending Balance 12/31/18
Capital assets, not being depreciated:				
Land and right-of-way	\$ 9,551,085	\$ -	\$ -	\$ 9,551,085
Construction in progress	-	3,843,063	-	3,843,063
Total capital assets not being depreciated	<u>\$ 9,551,085</u>	<u>\$ 3,843,063</u>	<u>\$ -</u>	<u>\$ 13,394,148</u>
Capital assets, being depreciated:				
Buildings	\$ 23,879,012	\$ 915,278	\$ 157,125	\$ 24,637,165
Improvements other than buildings	1,799,041	-	-	1,799,041
Furniture and equipment	1,816,270	-	13,092	1,803,178
Total capital assets being depreciated	27,494,323	915,278	170,217	28,239,384
Less accumulated depreciation for:				
Buildings	10,363,847	642,166	67,433	10,938,580
Improvements other than buildings	1,731,834	65,028	-	1,796,862
Furniture and equipment	1,314,565	146,000	13,092	1,447,473
Total accumulated depreciation	<u>13,410,246</u>	<u>853,194</u>	<u>80,525</u>	<u>14,182,915</u>
Total capital assets being depreciated, net	<u>\$ 14,084,077</u>	<u>\$ 62,084</u>	<u>\$ 89,692</u>	<u>\$ 14,056,469</u>

C. Construction commitments

The Port District began construction of two 16,500 square foot industrial buildings at the Cashmere Mill property during 2018. A construction contract was awarded for \$5,951,000, with the total project budget not to exceed \$6,770,740. As of December 31, 2018, \$3,402,300 had been remitted on the construction contract, with total project costs at \$3,791,200.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Port adopted this standard in 2018.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year ending December 31, 2018:

Aggregate OPEB Amounts - All Plans	
OPEB liabilities	\$ 649,137
OPEB assets	\$ -
Deferred outflows of resources	\$ 5,569
Deferred inflows of resources	\$ -
OPEB expenses/expenditures	\$ 6,791

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	N/A
Active employees	8
Total	12

The Port is not able to determine the number of inactive employees entitled to, but not yet receiving benefits, as eligibility is determined by the Washington State Office of Retirement Services and the Washington State Public Employees Benefit Board. Inactive employees entitled to but not yet receiving benefits would include any former Port employee who retires under the public employees' retirement system and who are vested in that system. Retirees may also elect alternate coverage through Medicare and a Medicare supplemental plan.

A. OPEB Plan Description

The Port District provides medical, dental, life, and long-term disability insurance to its full time employees and Commissioners through the Washington State Public Employees Benefit Board (PEBB). Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

A. OPEB Plan Description - continued

Other post-employment benefits (OPEB) are benefits provided to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, life, dental, and vision insurance. PEBB offers retirees access to all of these benefits and PEBB employers, through this single-employer defined benefit plan, provide monetary assistance, or subsidize, these benefits.

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504-0914 or it may be downloaded from the Office of the State Actuary website.

B. Subsidies

The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount for a specific group of people. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually.

The implicit subsidy, set up under RCW 41.05.022, is more complex because it is not a direct payment from the employer on behalf of the member. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retirees.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

B. Subsidies - continued

PEBB has also historically provided subsidized basic life insurance (Plan A) coverage to retirees. This was an explicit life insurance subsidy set up by the PEBB Board and approved as part of the budget process. However, beginning January 1, 2012, the PEBB Board eliminated the explicit life insurance subsidy on a permanent basis.

C. Funding Policy

The Port funds the implicit and explicit subsidies on a pay-as-you-go basis, meaning that Port pays these costs as they occur or become due. Therefore, there are no assets accumulating in a qualifying trust.

D. Actuarial Methods and Assumptions

The Port used the alternative measurement method permitted under GASB Statement No. 75 and provided by the Office of the State Actuary. The Office of the State Actuary made the following assumptions:

Health Plan Assumptions:

- 2/3 of members select a Uniform Medical Plan (UMP plan) and 1/3 select a Group Health plan.
- UMP pre- and post-Medicare costs and premiums are equal to the Uniform Medical Plan.
- Group Health pre-Medicare costs and premiums are a 50/50 blend of GH Classic and GH Value.
- The Group Health post-Medicare costs and premiums are equal to GH Medicare.

The actuary estimated retirement service for each active employee based on the average entry age of 35. For example, an age 47 member is assumed to have 12 years of service. Service is a component of benefit eligibility.

Retirement, disablement, termination, and mortality rates were based on the 2017 AVR. For simplicity, the Office of the State Actuary assumed that all employees are retirement eligible at age 55, relied on the retirement rates for members with less than 30 years of service, and assumed a 100% retirement rate at the age of 70.

Each primary member was assumed to be a 50/50 male/female split, and eligible spouses are the same age as the primary member. Age-based primary members were selected for the tool based on the overall distribution of State employees and retirees that participate in PEBB.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

E. Actuarial Methods and Assumptions - continued

Other assumptions include:

Discount Rate	
Beginning of Measurement Year	3.58%
End of Measurement Year	3.87%
Projected Salary Changes	3.75% + Service-Based Increases
Healthcare Trend Rates	Initial rate is approximately 7%, trends down to about 5% in 2080.
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	3.00%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

The following presents the total OPEB liability of the Port calculated using a discount rate of 3.87%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% point higher than the current rate. It also shows the total OPEB liability based on a healthcare trend rate of 7%, and 1% lower and 1% higher than the current rate.

Sensitivity Analysis			
Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	\$785,856	\$649,137	\$541,705
Healthcare Trend	\$530,695	\$649,137	\$803,964

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of changes in total OPEB liability and related ratios is presented as required supplementary information following the notes to the financial statements.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

F. Changes in the Total OPEB Liability

The following table shows the components of the Port's annual OPEB expense for the year, the benefit payments made, and changes in the Port's total OPEB liability as of June 30, 2018. The net OPEB liability of \$649,137 is included as a noncurrent liability in the Statement of Net Position.

Total OPEB Liability - 07/01/2017	\$ 652,714
Service Cost	19,696
Interest	23,888
Changes in Experience Data and Assumptions	(36,793)
Changes in Benefit Terms	-
Benefit Payments	(10,368)
Other	-
Total OPEB Liability - 06/30/2018	\$ 649,137

The Port District uses the alternative measurement method, which does not calculate deferred outflows and inflows for anything other than payments subsequent to the measurement date. Payments subsequent to the measurement date of June 30, 2018 were \$5,569.

G. Funded Status and Funding Progress

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. If the Port left the PEBB program, the Port would not be able to remove funds from the trust. As of December 31, 2018, the plan was not funded.

NOTE 6 - PENSION PLANS

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

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 378,896
Pension assets	\$ -
Deferred outflows of resources	\$ 71,773
Deferred inflows of resources	\$ 163,597
Pension expense/expenditures	\$ 860

NOTE 6 - PENSION PLANS - continued

State Sponsored Pension Plans

Substantially all Port District'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.

NOTE 6 - PENSION PLANS - continued

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 2018 were as follows:

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

NOTE 6 - PENSION PLANS - continued

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 one 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

NOTE 6 - PENSION PLANS - continued

Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

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

The District's actual PERS plan contributions were \$37,227 to PERS Plan 1 and \$55,146 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

NOTE 6 - PENSION PLANS - continued

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

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, 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 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

NOTE 6 - PENSION PLANS - continued

Estimated Rates of Return by Asset Class

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

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

Sensitivity of Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 311,855	\$ 253,760	\$ 203,438
PERS 2/3	572,376	125,136	(241,550)

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.

NOTE 6 - PENSION PLANS - continued

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

At June 30, 2018, the District reported a total pension liability of \$378,896 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 253,760
PERS 2/3	125,136

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

	Proportionate Share 06/30/17	Proportionate Share 06/30/18	Change in Proportion
PERS 1	0.005959%	0.005682%	-0.000277%
PERS 2/3	0.007665%	0.007329%	-0.000336%

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

Pension Expense

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

	Pension Expense
PERS 1	\$ 8,510
PERS 2/3	(9,370)
TOTAL	\$ (860)

NOTE 6 - PENSION PLANS - continued

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the District 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
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	10,084
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	18,768	-
TOTAL	\$ 18,768	\$ 10,084

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,338	\$ 21,909
Net difference between projected and actual investment earnings on pension plan investments	-	76,789
Changes of assumptions	1,464	35,613
Changes in proportion and differences between contributions and proportionate share of contributions	8,543	19,202
Contributions subsequent to the measurement date	27,660	-
TOTAL	\$ 53,005	\$ 153,513

NOTE 6 - PENSION PLANS - continued

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

Year Ended December 31:	Plan 1
2019	\$ 441
2020	(2,204)
2021	(6,615)
2022	(1,706)
2023	-
Thereafter	-

Year Ended December 31:	Plan 2/3
2019	\$ (11,963)
2020	(26,462)
2021	(49,287)
2022	(19,690)
2023	(8,727)
Thereafter	(12,038)

NOTE 7 - RISK MANAGEMENT

Port of Chelan County 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, 2018, there are 549 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 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$5,000 of the amount of each claim, while Enduris is responsible for the remaining \$245,000 on a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including public official’s liability. The property coverage is written on an “all risk”, blanket basis using current statement of values. The property coverage includes, but is not limited to, mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$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. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

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

The Port District does not maintain Washington State unemployment insurance, where it has elected to become self-insured. The Port does not expect to owe premiums on unemployment losses in 2019.

NOTE 8 - LONG-TERM DEBT

A tax-exempt bond was issued in 2002 to fund construction of the Confluence Technology Center building. The original issuance of \$1,132,054 was refunded in 2010. The new issuance of \$1,134,202 is to be retired by installments of \$135,883 commencing on June 1, 2020, and \$184,860 semi-annually thereafter (including interest). Interest only ranging from 2.4% to 5.0% is due semi-annually starting June 1, 2011. The bonds may be prepaid, in whole or in part, at any time.

\$ 38,313

A limited tax general obligation bond was issued in 2013 to fund the construction of the Pangborn Memorial Airport runway extension. Upon completion of construction in 2017, the balance of \$1,978,771 was refunded. The new issuance is being retired by semi-annual installments of \$80,386, including interest at 3.0%. The bonds may be prepaid, in whole or in part, at any time.

1,879,124

A limited tax general obligation bond was issued in 2018 to fund the construction of industrial buildings at the Cashmere mill site. The issuance of \$3,000,000 is to be retired by semi-annual installments of \$109,567, including interest, commencing December 1, 2018. The initial interest rate is 4.19%, with adjustments to reset every five years. The bond may be prepaid, in whole or in part, on any payment due date.

2,932,333

A non-interest bearing general obligation loan was issued in 2002, by the Washington State Community Economic Revitalization Board to fund construction of the Confluence Technology Center building. The \$825,000 loan is being retired by annual installments of \$48,529 in the years from 2007 through 2023.

242,647

A general obligation loan was issued in 2012, by the Washington State Community Economic Revitalization Board to fund Sunset Highway improvements at the Cashmere Mill Site. \$1,000,000 was available to be advanced, with a five-year deferral of interest and principal. The principal balance will then be amortized over 15 years at 3.4%.

785,692

NOTE 8 - LONG-TERM DEBT - continued

A non-interest bearing note is payable through an interlocal agreement to the Port of Douglas County for the extension of sewer services to Pangborn Memorial Airport. The \$73,531 note is being retired by annual payments of \$3,870.

	<u>\$ 19,350</u>
Total long-term debt	5,897,459
Long-term debt payable within one year	<u>340,535</u>
Long-term debt payable after one year	<u><u>\$ 5,556,924</u></u>

Annual debt service requirements to maturity are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 340,535	\$ 206,535
2020	310,836	197,251
2021	320,438	187,649
2022	330,058	178,028
2023	340,033	168,054
2024-2028	1,600,585	677,851
2029-2033	1,677,161	369,328
2034-2038	<u>977,813</u>	<u>116,372</u>
Total	<u><u>\$ 5,897,459</u></u>	<u><u>\$ 2,101,068</u></u>

Unamortized debt issue costs for insurance are recorded as an asset and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

Federal arbitrage regulations do not apply to the Port District.

Under RCW 53.36.030 the non-voted debt capacity of the Port District is 1/4 of 1% of the assessed valuation of taxable property. The 2018 debt limit is \$27,708,375 and the remaining non-voted debt capacity is \$21,027,759.

NOTE 9 - LONG-TERM OPERATING LEASES

The Port District operates an industrial park at Olds Station in Chelan County. Long-term operating leases with tenants are as follows:

ABC Early Learning Academy is leasing industrial building #6 for a term ending November 30, 2021, with rent currently fixed at \$1,081 per month.

Agrofresh, Inc. is leasing space in industrial building #9 for a seven-year term, extended for two years, ending August 31, 2019. Rent is currently \$8,662 per month.

Auvil Fruit Company, Inc. is leasing a unit in the CTC building for a term ending August 31, 2019, with rent currently at \$530 per month.

Cascade Quality Molding, Inc. dba Ultra Polymers is leasing space in industrial building #5 for a five-year term, ending January 31, 2023, with the option of two (2) additional five-year extensions. Rent is currently \$7,800 per month, with annual CPI adjustments starting in February 2020.

Public Utility District No. 1 of Chelan County is leasing a unit in the CTC building for a term ending April 30, 2021, with two one-year renewal terms available. Rent is currently set at \$2,623 per month, with annual adjustments on May 1st of each year based upon the CPI.

Public Utility District No. 1 of Chelan County is also leasing space in industrial building #5 for a four-year term ending September 30, 2022, with the option to renew for two (2) one-year periods. Rent is currently \$16,900 per month, with CPI adjustments in the extension terms only.

Confluence Health is leasing Suite B of industrial building #3, at a rate of \$5,260 per month, adjusted on the anniversary of the rent commencement date based upon the CPI. The lease is in an extension term of five years ending July 31, 2023, with one five-year extension still available.

Confluence Technology Center Condominium Association is leasing an office in the CTC building for a term ending February 28, 2019. Current rent is \$1,918 per quarter. The rent is adjusted on February 1st of each year based upon the CPI.

Cytherian, LLC is leasing a unit in the CTC building for a term ending February 28, 2019, with rent fixed at \$244 per month.

Fluke Networks, Inc. is leasing a unit in the CTC building for a term ending August 31, 2019, with rent fixed at \$252 per month.

GCI Communication Corp is leasing a unit in the CTC building for a term ending December 31, 2019, with rent fixed at \$452 per month.

NOTE 9 - LONG-TERM OPERATING LEASES - continued

HOM Solutions of Durango, LLC is leasing building #2 for a term commencing January 15, 2018, and ending December 31, 2020. Rent is currently set at \$3,214 per month, with annual increases based on the CPI.

J Rivera Associates, Inc. is leasing a unit in the CTC building for a term ending June 30, 2019, with rent fixed at \$747 per month.

McDougall & Sons, Inc. is leasing land for a term ending December 31, 2019, with rent fixed at \$900 per month.

North Central Educational Service District is leasing a unit in the CTC building for a term ending June 30, 2019, with rent fixed at \$529 per month.

Pacific Aerospace and Electronics, Inc. is leasing building #7, building #8, and a house for a term ending December 31, 2019. Monthly rent is \$55,252, with annual increases based on the CPI.

Pregis Innovative Packaging, Inc. is leasing building #4 for a term ending December 31, 2023. Rent is currently \$12,199 per month, with scheduled annual increases.

Sinclair Systems International, Inc. is leasing half of building #9 for a term ending August 31, 2021. Current monthly rent is \$10,259. The rent is adjusted on September 1st of each year based upon the CPI.

Subsplash, Inc. is subleasing space from the District in the Pybus building for an 18-month term ending April 15, 2020. The rent is on a staggered schedule throughout the term, and is currently \$2,275 per month.

Actapio, Inc. is leasing several units in the CTC building (pursuant to an assignment from Yahoo in 2014). In late 2015, YJ America, Inc. (now known as Actapio, Inc.) exercised the option to renew the lease through February 28, 2021 (pursuant to the assignment, rent is fixed during the option period). Monthly rent is set at \$66,407.

NOTE 9 - LONG-TERM OPERATING LEASES - continued

Minimum future rentals on long-term leases for the five years succeeding December 31, 2018, and in total are as follows:

2019	\$ 2,307,594
2020	1,572,443
2021	801,281
2022	519,456
2023	<u>261,568</u>
Total	<u>\$ 5,462,342</u>

The following schedule provides an analysis of the Port District's investment in property held for lease as of December 31, 2018:

Buildings	\$ 23,434,104
Land	<u>610,447</u>
	24,044,551
Less accumulated depreciation	<u>10,420,891</u>
Total	<u>\$ 13,623,660</u>

NOTE 10 - INVESTMENT IN LAKE CHELAN AIRPORT

On January 1, 1986, the Port District entered into an agreement with the City of Chelan to transfer the operation of the Lake Chelan Airport to an airport board consisting of five members, two appointed from each respective parent municipality and one by joint resolution of both the parent municipalities. An undivided one-half interest was conveyed to the Port District by quitclaim deed at the inception of the agreement. The agreement was restated in 1999, with the primary change being the Chelan City Council serving as the Airport Board. The agreement was amended in 2007 in response to comments received from the FAA. The agreement was again restated in 2010 to clarify, update and make minor modifications. Each of the parent municipalities owns an undivided one-half interest in the airport.

Funding of the airport is shared by the two municipalities. The Port District's annual contribution shall be the lesser of: (i) \$40,000 (as adjusted by an Implicit Price Deflator), but in no event more than \$50,000 unless approved by the Port District, or (ii) fifty percent (50%) of the deficit set forth in an approved budget for the airport.

NOTE 10 - INVESTMENT IN LAKE CHELAN AIRPORT - continued

The Port District accounts for the joint venture investment on the equity method. Under this method, investments are added to the equity account and losses from operations are charged against the equity accounts. The details of the Port District joint venture investment during the current year are as follows:

Investment balance, January 1	\$ 399,006
Contributions	70,523
Loss recognized	<u>(266,128)</u>
Investment balance, December 31	<u>\$ 203,401</u>

Summarized financial information from the unaudited financial statement of Lake Chelan Airport as of December 31, 2018, is as follows:

Current assets	\$ 198,806
Noncurrent assets	932,058
Current liabilities	14,790
Net position	1,116,074
Operating revenue	259,069
Operating expenses	636,704
Depreciation	36,491
Nonoperating revenue	143,232

Complete financial statements of the Lake Chelan Airport can be obtained directly from their administrative offices:

Lake Chelan Airport
32 Airport Way
Chelan, WA 98816

NOTE 11 - RETROSPECTIVE APPLICATION OF NEW ACCOUNTING PRINCIPLE

In 2018, the Port District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which requires governments that provide benefits, other than pensions, as part of a retirement package to accrue a liability related to those benefits. The financial statements have been retroactively restated for the change, which resulted in a decrease in the change of net position of \$652,714. Net position at the beginning of the year has been adjusted for the retroactive application of the new standard.

NOTE 12 - CONTINGENCIES

The Port District and the Airport participate in a number of Federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The Port District and the Airport management believe that such disallowances, if any, will not be material.

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, the Port has evaluated events and transaction for potential recognition or disclosure through September 4, 2019, the date the financial statements were available to be issued.

Subsequent to December 31, 2018, by action of its members, the Confluence Technology Center Condominium Association was dissolved and acquired by the Port of Chelan County in February 2019. The Port of Chelan County has assumed the responsibility for the day to day operations formerly performed by the Association. The financial statements do not include any adjustments that might be necessary upon dissolution of Association.

Port District of Chelan County, Washington

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

As of June 30, 2018

	PERS 1			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.005682%	0.005959%	0.006094%	0.005446%
Employer's proportionate share of the net pension liability	<u>\$ 253,760</u>	<u>\$ 282,759</u>	<u>\$ 327,277</u>	<u>\$ 284,892</u>
TOTAL	<u>\$ 253,760</u>	<u>\$ 282,759</u>	<u>\$ 327,277</u>	<u>\$ 284,892</u>
Covered payroll	\$ 755,003	\$ 751,464	\$ 827,406	\$ 683,011
Employer's proportionate share of the net pension liability as a percentage of covered payroll	33.61%	37.63%	39.55%	41.71%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

	PERS 2/3			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.007329%	0.007665%	0.007760%	0.007038%
Employer's proportionate share of the net pension liability	<u>\$ 125,136</u>	<u>\$ 266,322</u>	<u>\$ 390,710</u>	<u>\$ 251,472</u>
TOTAL	<u>\$ 125,136</u>	<u>\$ 266,322</u>	<u>\$ 390,710</u>	<u>\$ 251,472</u>
Covered payroll	\$ 755,003	\$ 751,464	\$ 827,406	\$ 683,011
Employer's proportionate share of the net pension liability as a percentage of covered payroll	16.57%	35.44%	47.22%	36.82%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

Port District of Chelan County, Washington
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Years Ended December 31, 2018

PERS 1

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 37,227	\$ 37,769	\$ 34,593	\$ 28,295
Contributions in relation to the statutorily or contractually required contributions*	<u>(37,227)</u>	<u>(37,769)</u>	<u>(34,593)</u>	<u>(28,295)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 735,294</u>	<u>\$ 770,658</u>	<u>\$ 725,209</u>	<u>\$ 699,822</u>
Contributions as a percentage of covered payroll	5.06%	4.90%	4.77%	4.04%

PERS 2/3

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 55,146	\$ 52,901	\$ 45,180	\$ 35,646
Contributions in relation to the statutorily or contractually required contributions*	<u>(55,146)</u>	<u>(52,901)</u>	<u>(45,180)</u>	<u>(35,646)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 735,294</u>	<u>\$ 770,658</u>	<u>\$ 725,209</u>	<u>\$ 699,822</u>
Contributions as a percentage of covered payroll	7.50%	6.86%	6.23%	5.09%

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

PEBB – Health Care Authority

For the Year Ended June 30, 2018

	2018
Total OPEB liability - beginning	\$ 652,714
Service cost	19,696
Interest	23,888
Changes in benefit terms	-
Differences between expected and actual experience	(36,793)
Changes of assumptions	-
Benefit payments	(10,368)
Other changes	-
Total OPEB liability - ending	\$ 649,137
Covered-employee payroll	\$ 749,701
Total OPEB liability as a % of covered payroll	86.59%

Notes to Schedule:

- * Until a full 10-year trend is compiled, only information for those years available is presented.
- * No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

For the Year Ended December 31, 2018

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Port District of Chelan County, Washington
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Port District's financial statements, with the exception of retainage. The Port District uses the full accrual basis of accounting. For purposes of this schedule, retainage is reported on the cash basis, as required by the Washington State Auditor's Office.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port District's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The Port District has no indirect costs related to the Expenditures of Federal awards for the year ended December 31, 2018.

The Port District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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