Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Edmonds

For the period January 1, 2018 through December 31, 2019

Published July 2, 2020

Report No. 1025219

Office of the Washington State Auditor
Pat McCarthy

July 2, 2020

Board of Commissioners
Port of Edmonds
Edmonds, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Americans with Disabilities

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Port of Edmonds
January 1, 2018 through December 31, 2019

Board of Commissioners
Port of Edmonds
Edmonds, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Edmonds, as of and for the years ended December 31, 2019 and 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 June 26, 2020.

As discussed in Note 14 to the 2018 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 15 to the 2019 financial statements, during the year ended December 31, 2019, the Port implemented Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement* Obligations.

Additionally, as discussed in Note 16 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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.

Pat McCarthy

State Auditor

Olympia, WA

June 26, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Edmonds
January 1, 2018 through December 31, 2019

Board of Commissioners
Port of Edmonds
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Edmonds, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 10.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Edmonds, as of December 31, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 14 to the 2018 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 15 to the 2019 financial statements, in 2019, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port. Our opinion is not modified with respect to this matter.

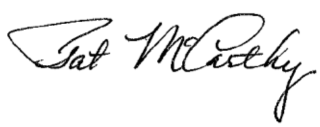
Other Matters

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

June 26, 2020

FINANCIAL SECTION

Port of Edmonds
January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

PORT OF EDMONDS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Port of Edmonds' (the Port's) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2019. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements.

The Port of Edmonds is a Special Purpose Municipal Government. The Port was created in 1948 by a vote of the citizens of the Port district. The district encompasses portions of the City of Edmonds and all of the Town of Woodway. Ports exist to build infrastructure and promote economic development and tourism within their districts. Ports are often, though not always, involved in transportation activities.

The Port of Edmonds operates a marina on Puget Sound for recreational boating. The marina consists of an in-water facility with approximately 660 slips, a dry stack storage facility with approximately 230 spaces, two public boat launches, a boatyard, a fuel dock, guest moorage, and parking facilities. In addition to the Port's marina operations, the Port rents its land to commercial users who then build suitable facilities on the land. The Port also owns and manages eight buildings, renting portions of those buildings to approximately 60 tenants. Major tenants include a hotel, an athletic club, three restaurants, a yacht broker/repair facility, and a yacht club.

Five elected Port Commissioners administer the Port. In accordance with the laws of Washington, the Commissioners have appointed an Executive Director to manage Port operations.

USING THE ANNUAL REPORT

Governmental accounting falls under the control of the Governmental Accounting Standards Board (GASB). All of the functions of the Port are considered in the numbers shown on the following pages, including the cost of general government of the Port District. Since the Port is a Special Purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance, and public meeting expenses. All of these expenses of the Port are reported in the Proprietary Fund. The "one fund" model is used in compliance with the rules of GASB 34, which state that separately issued debt and separately issued classified assets are needed in order for a separate fund to exist. Most of the governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports. Since the Port is comprised of a single enterprise fund, no fund level financial statements are shown.

Ports perform their accounting and financial reporting of their activities very much like a business. The Port prepares an income statement, manages operations, and plans for capital investments. Ports collect revenues from services performed for customers and pay for expenses related to those services. However, ports are municipal governments. As such, ports may collect property tax revenues from the property owners within the Port district. These tax revenues may go to support the capital investments made by the Port. Often, ports will use tax revenues to pay for debt incurred to construct facilities that are used to support port functions. Sometimes, ports may use a portion of their tax revenue to pay for operating expenses. The Port of Edmonds uses its tax revenue to pay for Commission costs, to supplement the cost of public amenities, and to promote economic development and tourism.

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

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

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

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

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

One of the questions to be answered by the financial statements would be, "Is the Port as a whole better off or worse off as a result of this year's activities?" Changes in net position and cash flows are two ways of measuring the financial position of the Port. Increases in Net Position as a result of the year's operations indicate an improved financial position. In 2019, the Port's Net Position increased by $2.9 million or 8%, which shows that the Port of Edmonds performed better in 2019 than in 2018. Cash flows show if the Port is spending more money than it received. In 2019, the Port purchased an additional $6.5 million in investments and the $712 thousand restricted certificate of deposit from 2018 became unrestricted in 2019. Total cash and investments increased by $1.9 million. The Port also made $1.5 million in bond principal and interest payments, thereby reducing debt to zero. Overall, the Port is in a better financial position than it was in 2018.

FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

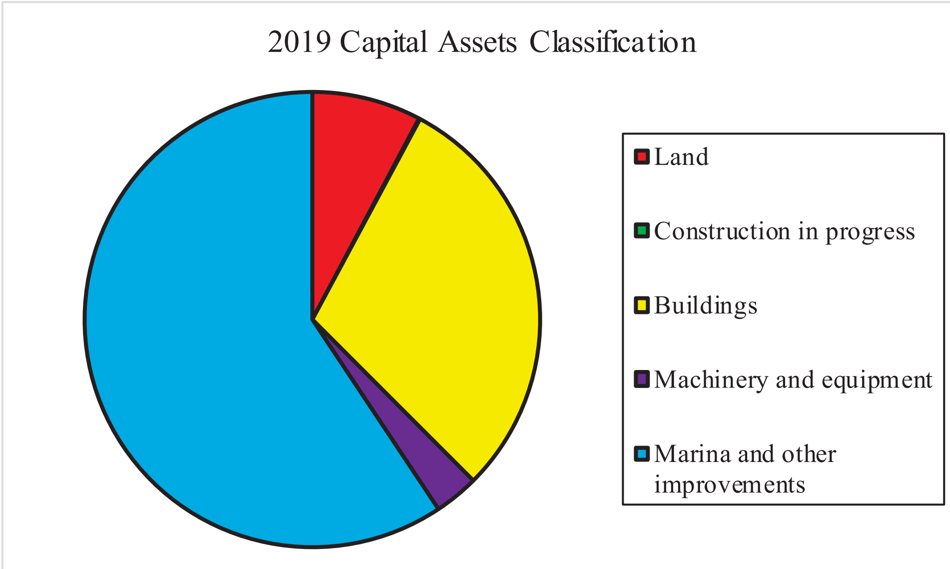
Summary of Statement of Net Position

	2019	2018	Increase (Decrease)	% Change
Current Assets	$ 3,777,181	$ 8,496,484	$ (4,719,303)	-56%
Investments	14,787,473	7,419,456	7,368,017	99%
Noncurrent Restricted Assets	-	706,329	(706,329)	-100%
Capital Assets, Net	26,265,150	26,747,380	(482,230)	-2%
Total Assets	44,829,804	43,369,649	1,460,155	3%
Deferred Outflows of Resources	333,751	207,871	125,880	61%
Total Assets and Deferred Outflows of Resources	45,163,555	43,577,520	1,586,035	4%
Current Liabilities	1,202,995	2,601,706	(1,398,711)	-54%
Noncurrent Liabilities	2,855,313	2,867,251	(11,938)	0%
Total Liabilities	4,058,308	5,468,957	(1,410,649)	-26%
Deferred Inflows of Resources	401,573	350,411	51,162	15%
Net investment in capital assets	26,265,150	25,266,270	998,880	4%
Unrestricted	14,438,524	12,491,882	1,946,642	16%
Total Net Position	40,703,674	37,758,152	2,945,522	8%
Total Liabilities, Deferred Inflows of Revenues, and Net Position	$ 45,163,555	$ 43,577,520	$ 1,586,035	4%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2019, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $2.9 million or 8% in 2019. $26 million of the Port's Net Position reflects the Port's net investment in capital assets.

The Port's assets exceeded its liabilities by just under $41 million (net position) as of December 31, 2019.

CAPITAL ASSETS



Capital Assets	2019	2018
Land	$ 4,323,675	$ 4,323,675
Construction in progress	43,919	-
Buildings	16,522,192	16,362,466
Machinery and equipment	1,756,604	1,177,559
Marina and other improvements	33,048,321	33,048,321
	$ 55,694,711	$ 54,912,021

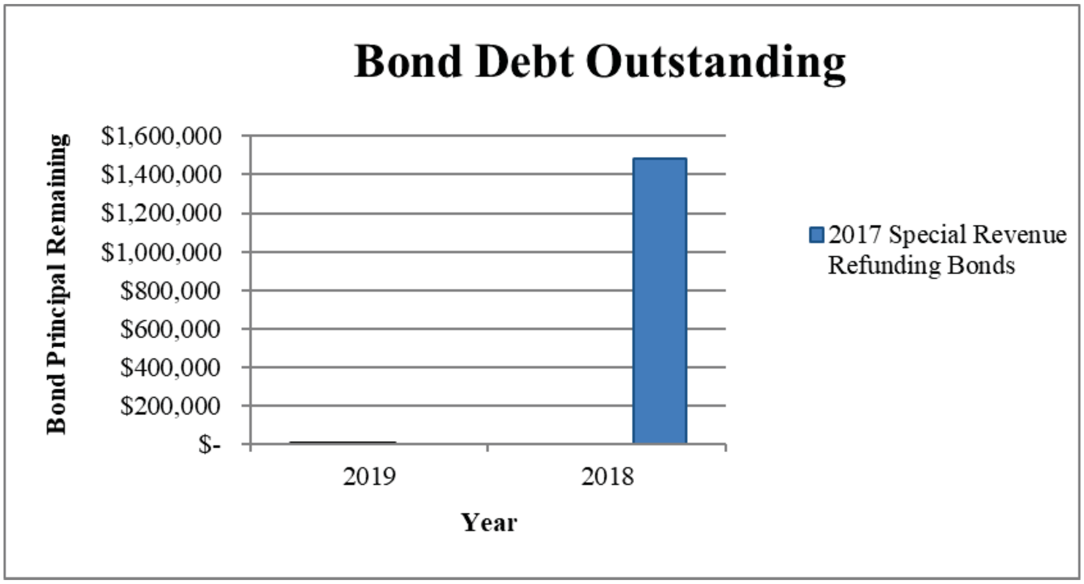
The Port has booked the acquisition of all assets at historical costs on its Statement of Net Position. GASB 34 requires the Port to capitalize and depreciate all of the assets owned or controlled by the Port, which is done on these financial statements. In 2019, the Port purchased and capitalized a marina forklift, a marine travelift, 13 HVAC units at the Harbor Square business park, a furnace at the business park, and a marina operations camera.

The Port's capital assets are classified into the following categories: land, construction in progress, buildings, marina and other improvements, and machinery and equipment. Marina and other improvements include assets such as docks, breakwaters, the dry stack facility, roads, and landscaping. On the graph above, Construction in Progress is so minor compared to the Port's capital assets that it cannot be seen in the graph. See Note 4, *Capital Assets and Depreciation*, in the Notes to the Financial Statements for more information.

The Port maintained capital assets of $56 million as of December 31, 2019. The book value of the capital assets decreased by $482 thousand in 2019 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital assets in a year, the book value of its asset base increases.

LIABILITIES

The Port's current liabilities as of December 31, 2019, are debts that the Port will repay in 2020. The total current liabilities decreased by $1.4 million in 2019. Current liabilities include payments for expenses already incurred and customer deposits. The Port paid off its remaining $1.5 million bond balance in 2019 and is debt free for the first time in more than 25 years.



Bond	2019	2018
2017 Special Revenue Refunding Bonds	$ -	$ 1,481,109

See Note 10, *Long-Term Debt* in the Notes to the Financial Statements for more information.

The Port's long term liabilities are employee leave benefits, other postemployment benefits, net pension liability, environmental remediation liability, and underground storage tank retirement obligation, most of which will never be paid by the Port, but that the Port is required to show on its financial statements. See Notes 7, *Pension Plans*; 8, *Other Postemployment Benefit (OPEB) Plans*; 13, *Pollution Remediation Obligations*; and 14, *Underground Storage Tank Remediation Obligation* in the Notes to the Financial Statements for more information.

FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Summary of Statement of Revenues, Expenses, and Changes in Fund Net Position				
	2019	2018	Increase (Decrease)	% Change
Marina Operations Revenues	$ 6,744,287	$ 6,455,908	$ 288,379	4%
Property/Lease Rental Operations Revenues	2,764,051	2,730,353	33,698	1%
Nonoperating Revenues	851,570	658,835	192,735	29%
Total Revenues	10,359,908	9,845,096	514,812	5%
Operating Expenses	7,226,166	6,910,266	315,900	5%
Nonoperating Expenses	38,220	368,840	(330,620)	-90%
Total Expenses	7,264,386	7,279,106	(14,720)	0%
Increase in Net Position	3,095,522	2,565,990	529,532	21%
Net Position - Beginning	37,758,152	35,513,059	2,245,093	6%
Change in Accounting Principle	(150,000)	(330,055)	180,055	55%
Prior Period Adjustments	-	9,158	(9,158)	-100%
Net Position - Ending	$ 40,703,674	$ 37,758,152	$ 2,945,522	8%

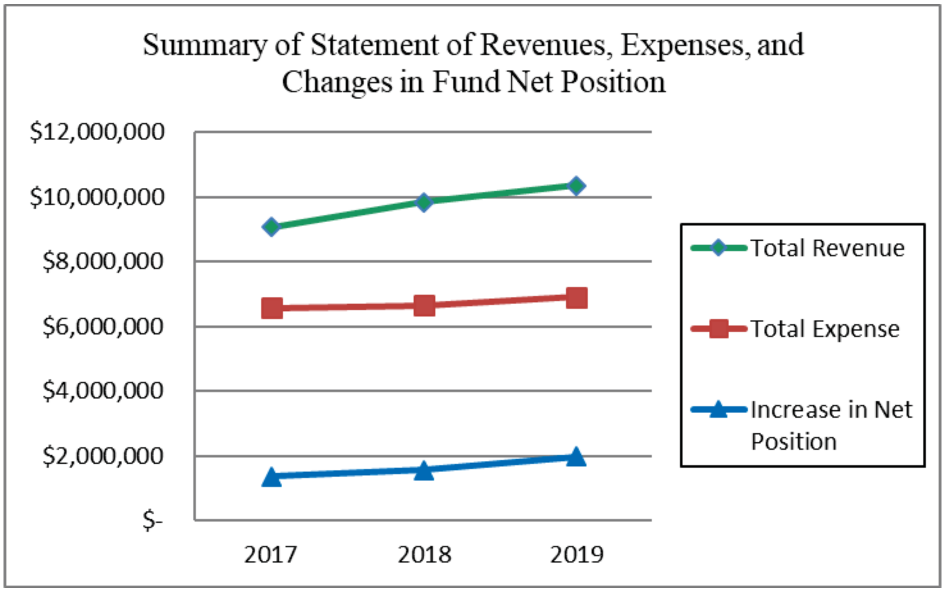
While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Fund Net Position provides answers as to the nature and source of these changes.

The Port’s 2019 marina operations revenues were $6.7 million, an increase of $288 thousand or 4% over than the previous year. Increases are due to increases in occupancy, rates, and marina activity. 2019 property/lease rental operations revenues were $2.8 million, an increase of $34 thousand or 1% greater than the previous year. The Port’s rental property is effectively full due to parking constraints. The Port’s 2019 non-operating revenues were $851 thousand, an increase of $193 thousand, or 29% greater than the previous year. The increases were due to positive results from the Port’s investment activity.

The Port’s 2019 operating expenses were $7.2 million, an increase of $316 thousand or 5% greater than the previous year’s operating expense levels. The Port’s non-operating expenses were $38 thousand, a decrease of $331 thousand from the previous year’s non-operating expense levels.

The Port’s operating income was $2.3 million in 2019, which is approximately the same as in 2018.

In 2019, the Port’s net position increased by $3.1 million, which is $530 thousand greater than 2018.



CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Tina Drennan, Finance Manager, at the Port of Edmonds, 336 Admiral Way, Edmonds, WA 98020, by e-mail at tdrennan@portofedmonds.org, or by telephone at (425) 673-2009.

PORT OF EDMONDS
MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Port of Edmonds' (the Port's) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2018. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements.

The Port of Edmonds is a Special Purpose Municipal Government. The Port was created in 1948 by a vote of the citizens of the Port district. The district encompasses portions of the City of Edmonds and all of the Town of Woodway. Ports exist to build infrastructure and promote economic development and tourism within their districts. Ports are often, though not always, involved in transportation activities.

The Port of Edmonds operates a marina on Puget Sound for recreational boating. The marina consists of an in-water facility with approximately 660 slips, a dry stack storage facility with approximately 230 spaces, two public boat launches, a boatyard, a fuel dock, guest moorage, and parking facilities. In addition to the Port's marina operations, the Port rents its land to commercial users who then build suitable facilities on the land. The Port also owns and manages eight buildings, renting portions of those buildings to approximately 60 tenants. Major tenants include a hotel, an athletic club, three restaurants, a yacht broker/repair facility, and a yacht club.

Five elected Port Commissioners administer the Port. In accordance with the laws of Washington, the Commissioners have appointed an Executive Director to manage Port operations.

USING THE ANNUAL REPORT

Governmental accounting falls under the control of the Governmental Accounting Standards Board (GASB). All of the functions of the Port are considered in the numbers shown on the following pages, including the cost of general government of the Port District. Since the Port is a Special Purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance, and public meeting expenses. All of these expenses of the Port are reported in the Proprietary Fund. The "one fund" model is used in compliance with the rules of GASB 34, which state that separately issued debt and separately issued classified assets are needed in order for a separate fund to exist. Most of the governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports. Since the Port is comprised of a single enterprise fund, no fund level financial statements are shown.

Ports perform their accounting and financial reporting of their activities very much like a business. The Port prepares an income statement, manages operations, and plans for capital investments. Ports collect revenues from services performed for customers and pay for expenses related to those services. However, ports are municipal governments. As such, ports may collect property tax revenues from the property owners within the Port district. These tax revenues may go to support the capital investments made by the Port. Often, ports will use tax revenues to pay for debt incurred to construct facilities that are used to support port functions. Sometimes, ports may use a portion of their tax revenue to pay for operating expenses. The Port of Edmonds uses its tax revenue to pay for Commission costs, to supplement the cost of public amenities, and to promote economic development and tourism.

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

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

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

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

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

One of the questions to be answered by the financial statements would be, "Is the Port as a whole better off or worse off as a result of this year's activities?" Changes in net position and cash flows are two ways of measuring the financial position of the Port. Increases in Net Position as a result of the year's operations indicate an improved financial position. In 2018, the Port's Net Position increased by $2.2 million or 6%, which shows that the Port of Edmonds performed better in 2018 than in 2017. Cash flows show if the Port is spending more money than it received. In 2018, the Port of Edmonds received $1.2 million more than it spent, while making $1.4 million in bond principal and interest payments, thereby reducing debt. Total cash and investments increased by $2.4 million from 2017 to 2018. Overall, the Port is in a better financial position than it was in 2017.

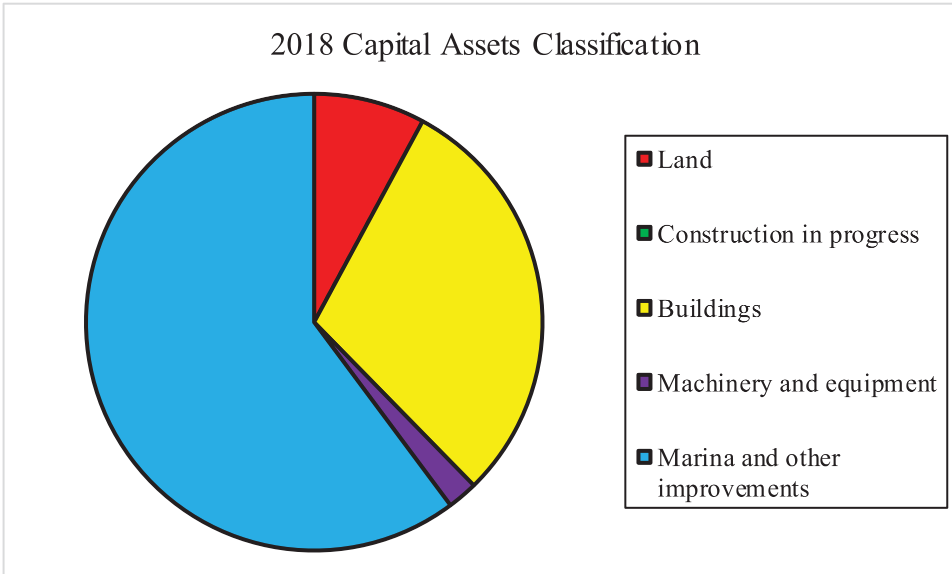
FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

Summary of Statement of Net Position				
	2018	2017	Increase (Decrease)	% Change
Current Assets	$ 8,496,484	$ 7,277,445	$1,219,039	17%
Investments	7,419,456	6,201,137	1,218,319	20%
Noncurrent Restricted Assets	706,329	699,995	6,334	1%
Capital Assets, Net	26,747,380	28,054,025	(1,306,645)	-5%
Total Assets	43,369,649	42,232,602	1,137,047	3%
Deferred Outflows of Resources	207,871	179,994	27,877	15%
Total Assets and Deferred Outflows of Resources	43,577,520	42,412,596	1,164,924	3%
Current Liabilities	2,601,706	2,579,369	22,337	1%
Noncurrent Liabilities	2,867,251	4,110,508	(1,243,257)	-30%
Total Liabilities	5,468,957	6,689,877	(1,220,920)	-18%
Deferred Inflows of Resources	350,411	209,660	140,751	67%
Net investment in capital assets	25,266,270	25,242,718	23,552	0%
Unrestricted	12,491,882	10,270,341	2,221,541	22%
Total Net Position	37,758,152	35,513,059	2,245,093	6%
Total Liabilities, Deferred Inflows of Revenues, and Net Position	$43,577,520	$42,412,596	$1,164,924	3%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2018, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Position increased by $2.2 million or 6% in 2018. $25 million of the Port's Net Position reflects the Port's net investment in capital assets.

The Port's assets exceeded its liabilities by $38 million (net position) as of December 31, 2018.

CAPITAL ASSETS



Capital Assets	2018	2017
Land	$ 4,323,675	$ 4,323,675
Construction in progress	-	97,820
Buildings	16,362,466	16,610,526
Machinery and equipment	1,177,559	1,201,845
Marina and other improvements	33,048,321	33,526,128
	$ 54,912,021	$ 55,759,994

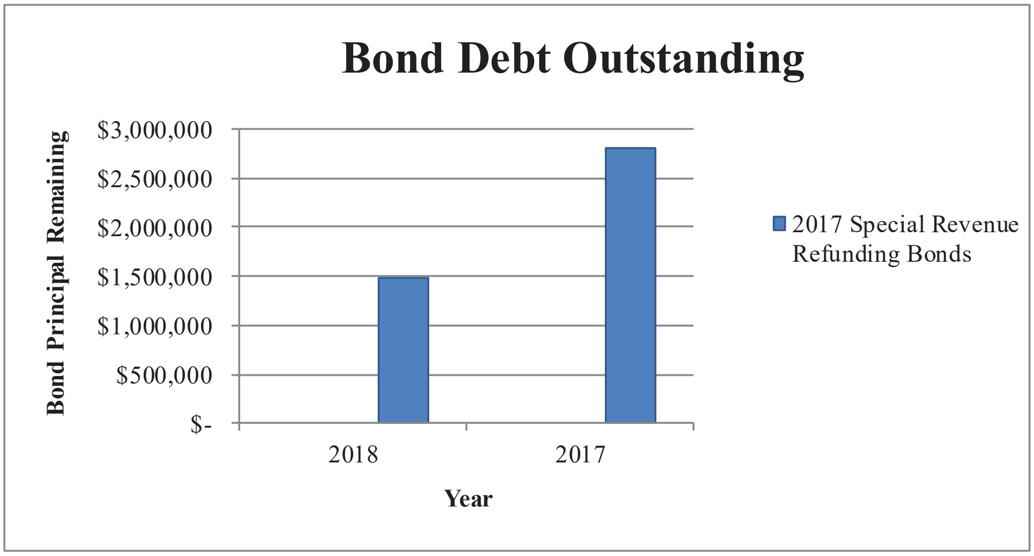
The Port has booked the acquisition of all assets at historical costs on its Statement of Net Position. GASB 34 requires the Port to capitalize and depreciate all of the assets owned or controlled by the Port, which is done on these financial statements. In 2018, the Port purchased or constructed and capitalized public restrooms, HVAC units at the Harbor Square business park, 2 vehicles, fuel dock dispensers, and A Dock electrical and plumbing.

The Port's capital assets are classified into the following categories: land, construction in progress, buildings, marina and other improvements, and machinery and equipment. Marina and other improvements include assets such as docks, breakwaters, the dry stack facility, roads, and landscaping. See Note 5, *Capital Assets and Depreciation*, in the Notes to the Financial Statements for more information.

The Port maintained capital assets of $55 million as of December 31, 2018. The book value of the capital assets decreased by $1.3 million in 2018 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital assets in a year, the book value of its asset base increases.

LIABILITIES

The Port's current liabilities as of December 31, 2018, are debts that the Port will repay in 2019. The total current liabilities increased by $22 thousand in 2018. Current liabilities include payments for expenses already incurred, accrued interest on the Port's bonds, customer deposits, and the principal amount of the bond payments due in 2019.



Bond	2018	2017
2017 Special Revenue Refunding Bonds	$ 1,481,109	$ 2,811,307

The Port's long term liabilities decreased by $1.2 million in 2018, as the Port made principal payments on its bonds. See Note 10, *Long-Term Debt* in the Notes to the Financial Statements for more information.

FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Summary of Statement of Revenues, Expenses, and Changes in Fund Net Position				
	2018	2017	Increase (Decrease)	% Change
Marina Operations Revenues	$ 6,455,908	$ 5,970,132	$ 485,776	8%
Property/Lease Rental Operations Revenues	2,730,353	2,553,482	176,871	7%
Nonoperating Revenues	658,835	541,237	117,598	22%
Total Revenues	9,845,096	9,064,851	780,245	9%
Operating Expenses	6,910,266	6,764,355	145,911	2%
Nonoperating Expenses	368,840	328,480	40,360	12%
Total Expenses	7,279,106	7,092,835	186,271	3%
Increase in Net Position	2,565,990	1,972,016	593,974	30%
Net Position - Beginning	35,513,059	34,045,700	1,467,359	4%
Change in Accounting Principle	(330,055)		(330,055)	-100%
Prior Period Adjustments	9,158	(504,657)	513,815	102%
Net Position - Ending	$ 37,758,152	$ 35,513,059	$ 2,245,093	6%

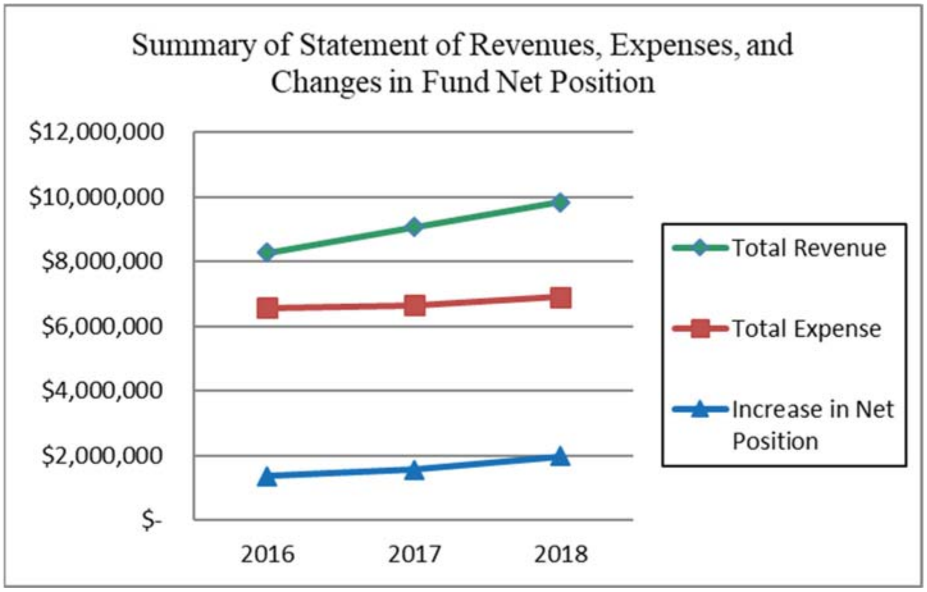
While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Fund Net Position provides answers as to the nature and source of these changes.

The Port’s 2018 marina operations revenues were $6.5 million, an increase of $486 thousand or 8% over than the previous year. Increases are due to increases in occupancy, rates, and marina activity. 2018 property/lease rental operations revenues were $2.7 million, an increase of $177 thousand or 7% greater than the previous year. This is partially due to an increase in lease rates and partially due to an increase in occupancy. The Port’s 2018 non-operating revenues were $659 thousand, an increase of $118 thousand, or 22% greater than the previous year.

The Port’s 2018 operating expenses were $6.9 million, an increase of $146 thousand or 2% greater than the previous year’s operating expense levels. The Port’s non-operating expenses were $369 thousand, an increase of $40 thousand from the previous year’s non-operating expense levels.

The Port’s operating income was $2.3 million in 2018, as compared to $1.8 million in 2017.

In 2018, the Port’s net position increased by $2.2 million.



CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Tina Drennan, Finance Manager, at the Port of Edmonds, 336 Admiral Way, Edmonds, WA 98020, by e-mail at tdrennan@portofedmonds.org, or by telephone at (425) 673-2009.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2019

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 1 and 2)	$ 3,466,680
Accounts receivable (net of allowance for uncollectibles) (Note 1)	15,362
Taxes receivable (Notes 1 and 3)	6,103
Interest receivable (Notes 1 and 2)	52,404
Inventory (Note 1)	75,348
Prepaid expenses (Note 1)	161,284
Total Current Assets	3,777,181
Noncurrent Assets	
Investments (Note 2)	14,787,473
Capital Assets	
Capital Assets Not Being Depreciated (Notes 1 and 4)	
Land	4,323,675
Construction in progress (Note 4)	43,919
Capital Assets Being Depreciated (Notes 1 and 4)	
Buildings	16,522,192
Marina and other improvements	33,048,321
Machinery and equipment	1,756,604
Less: Accumulated depreciation	(29,429,561)
Total Net Capital Assets	26,265,150
Total Noncurrent Assets	41,052,623
TOTAL ASSETS	$ 44,829,804
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflow (Notes 1 and 7)	230,811
Deferred other post employment benefits outflow (Notes 1 and 8)	9,190
Deferred underground storage tank retirement outflow (Notes 1 and 14)	93,750
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 333,751

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2019

LIABILITIES	
Current Liabilities	
Accounts payable	$ 92,865
Accrued expenses (Note 1)	310,831
Unearned revenue (Note 1)	131,083
Customer deposits	668,216
Total Current Liabilities	1,202,995
Noncurrent Liabilities	
Employee leave benefits (Note 1)	171,690
Other postemployment benefits (Note 8)	1,122,307
Net pension liability (Notes 1 and 7)	698,816
Environmental remediation liability (Note 13)	612,500
Underground storage tank retirement obligation (Note 14)	250,000
Total Noncurrent Liabilities	2,855,313
TOTAL LIABILITIES	4,058,308
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows (Notes 1 and 7)	401,573
NET POSITION	
Net investment in capital assets	26,265,150
Unrestricted	14,438,524
TOTAL NET POSITION	$ 40,703,674

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2018

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 1 and 3)	$ 8,180,523
Accounts receivable (net of allowance for uncollectibles) (Note 1)	64,899
Taxes receivable (Notes 1 and 4)	8,196
Interest receivable (Note 1)	25,328
Inventory (Note 1)	77,339
Prepaid expenses (Note 1)	140,199
Total Current Assets	8,496,484
Noncurrent Assets	
Investments (Note 3)	7,419,456
Restricted Assets (Note 3)	
Investments (Note 3)	706,329
Capital Assets	
Capital Assets Not Being Depreciated (Note 5)	
Land	4,323,675
Capital Assets Being Depreciated (Note 5)	
Buildings	16,362,466
Marina and other improvements	33,048,321
Machinery and equipment	1,177,559
Less: Accumulated depreciation	(28,164,641)
Total Net Capital Assets	26,747,380
Total Noncurrent Assets	34,873,165
TOTAL ASSETS	$ 43,369,649
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflow (Notes 1 and 7)	200,047
Deferred other post employment benefits outflow (Note 8)	7,824
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 207,871

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2018

LIABILITIES	
Current Liabilities	
Accounts payable	$ 135,468
Accrued expenses (Note 1)	277,730
Unearned revenue (Note 1)	190,861
Customer deposits	632,044
Current portion of long-term obligations (Note 10)	1,365,603
Total Current Liabilities	2,601,706
Noncurrent Liabilities	
Employee leave benefits (Note 1)	176,276
Revenue bonds, net of current portion (Note 10)	115,507
Other postemployment benefits (Note 8)	1,079,896
Net pension liability (Notes 1 and 7)	883,072
Environmental remediation liability (Note 13)	612,500
Total Noncurrent Liabilities	2,867,251
TOTAL LIABILITIES	5,468,957
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows (Notes 1 and 7)	350,411
NET POSITION	
Net investment in capital assets	25,266,270
Unrestricted	12,491,882
TOTAL NET POSITION	$ 37,758,152

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

OPERATING REVENUES (Note 1)	
Marina operations	$ 6,744,287
Property lease/rental operations	2,764,051
Total Operating Revenues	9,508,338
OPERATING EXPENSES (Note 1)	
General operations	3,980,379
Maintenance	617,725
General and administrative	1,190,089
Depreciation and amortization	1,437,973
Total Operating Expenses	7,226,166
Operating Income	2,282,172
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income (Notes 1 and 2)	336,807
Taxes levied for general purposes (Notes 1 and 3)	404,734
Grant proceeds (Note 12)	284
Change in fair value of investments (Note 2)	109,745
Loss on disposition of fixed assets (Note 4)	(9,047)
Interest expense (Note 10)	(22,838)
Election expense	(6,335)
Total Nonoperating Revenues (Expenses)	813,350
Increase in net position	3,095,522
Net position as of January 1	37,758,152
Change in accounting principle (Note 14)	(150,000)
Net position as of December 31	$ 40,703,674

See accompanying notes to the financial statements.

PORT OF EDMONDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2018

OPERATING REVENUES (Note 1)	
Marina operations	$ 6,455,908
Property lease/rental operations	2,730,353
Total Operating Revenues	9,186,261
OPERATING EXPENSES (Note 1)	
General operations	3,786,449
Maintenance	411,839
General and administrative	1,193,219
Depreciation	1,518,759
Total Operating Expenses	6,910,266
Operating Income	2,275,995
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income (Note 3)	239,242
Taxes levied for general purposes (Note 4)	405,697
Grant proceeds (Note 12)	5,683
Change in fair value of investments (Note 3)	8,213
Loss on disposition of fixed assets (Note 5)	(310,923)
Interest expense (Note 10)	(57,917)
Total Nonoperating Revenues (Expenses)	289,995
Increase in net position	2,565,990
Net position as of January 1	35,513,059
Change in accounting principle (Note 14)	(330,055)
Prior period adjustment (Note 15)	9,158
Net position as of December 31	$ 37,758,152

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 9,534,269
Payments to suppliers	(2,850,102)
Payments to employees	(3,094,086)
Net cash provided by operating activities	3,590,081
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 3)	406,827
Nonoperating receipts	284
Nonoperating expenses	(6,335)
Net cash provided by noncapital financing activities	400,776
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets (Note 4)	(958,540)
Principal paid on capital debt (Note 10)	(1,481,110)
Interest paid on capital debt (Note 10)	(22,838)
Net cash used by capital and related financing activities	(2,462,488)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments (Note 2)	4,017,000
Purchases of investments (Note 2)	(10,568,943)
Interest and dividends	309,731
Net cash used by investing activities	(6,242,212)
Net increase in cash and cash equivalents	(4,713,843)
Balances - beginning of the year	8,180,523
Balances - end of the year (Note 1)	3,466,680

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	2,282,172
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense (Note 4)	1,437,973
Other post-employment benefits expense	41,045
Pension negative expense	(163,858)
Changes in assets and liabilities	
(Increase)/decrease in accounts receivable	49,537
(Increase)/decrease in inventory	1,991
(Increase)/decrease in prepaid expenses	(21,085)
Increase/(decrease) in accounts payable	(42,603)
Increase/(decrease) in accrued expenses	33,101
Increase/(decrease) in customer deposits	36,172
Increase/(decrease) in unearned revenue	(59,778)
Increase/(decrease) in employee benefits payable	(4,586)
Net cash provided by operating activities	$ 3,590,081

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers (Note 1)	$ 9,201,788
Payments to suppliers	(2,648,719)
Payments to employees	(2,866,535)
Net cash provided by operating activities	3,686,534
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 4)	406,733
Nonoperating receipts	5,683
Net cash provided by noncapital financing activities	412,416
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets (Note 5)	(523,037)
Principal paid on capital debt (Note 10)	(1,330,197)
Interest paid on capital debt (Note 10)	(57,917)
Net cash used by capital and related financing activities	(1,911,151)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments (Note 3)	1,535,000
Purchases of investments (Note 3)	(2,751,440)
Interest and dividends	228,206
Net cash used by investing activities	(988,234)
Net increase in cash and cash equivalents	1,199,565
Balances - beginning of the year	6,980,958
Balances - end of the year (Note 1)	8,180,523

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	2,275,995
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense (Note 5)	1,518,759
Prior period adjustment	9,158
Other post-employment benefits expense	26,655
Pension negative expense	(140,707)
Changes in assets and liabilities	
(Increase)/decrease in accounts receivable	18,892
(Increase)/decrease in inventory	(23,700)
(Increase)/decrease in prepaid expenses	(4,666)
Increase/(decrease) in accounts payable	(24,027)
Increase/(decrease) in accrued expenses	14,373
Increase/(decrease) in customer deposits	31,815
Increase/(decrease) in unearned revenue	(35,180)
Increase/(decrease) in employee benefits payable	19,167
Net cash provided by operating activities	$ 3,686,534

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Port was incorporated in December 1948 and operates under the laws of the State of Washington applicable to public port districts. The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through user charges. The Port is governed by an elected five member board.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Reporting

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

The Port's financial statements are reported using the economic resources measurement focus and the full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when 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.

All assets and all liabilities (whether current or noncurrent) associated with the Port's activity are included on the statement of net position. Net position is segregated into net investment in capital assets, and restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows on a separate statement that presents its operating, noncapital financing, capital and related financing, and investing activities.

The Port distinguishes between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for boating services. The Port also recognizes land and building lease revenue as operating revenue. Operating expenses for the Port include general operations, maintenance, general and administrative, and depreciation. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2019, the treasurer was holding $3,466,680 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2019 were approximately $388,000.

The Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments – See Note 2, *Deposits and Investments*.

3. Receivables

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 classifies prepaid rent from land and building tenants as unearned revenue in the current liability section of the financial statements.

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

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes are considered liens on property, no estimated uncollectible amounts are established.

Interest receivable consists of amounts earned on investments at the end of the year.

4. Inventory

Inventory consists of fuel and workyard supplies held for sale to customers. Inventory is valued by the FIFO (first-in, first-out basis) cost method, which approximates market value. The cost is recorded as cost of goods sold at the time the inventory items are consumed.

5. Prepaid Expenses

Prepaid expenses include items that were paid in the current year but will not be used until the following year. Examples are insurance, dues, advertising, marketing programs, and software maintenance agreements.

6. Capital Assets and Depreciation - See Note 4, *Capital Assets and Depreciation*.

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost, where historical cost is not known. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

When an asset is sold, retired, or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, is removed from the Port of Edmonds' capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method based on the following estimated useful lives:

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 15 years
Other Improvements	5 to 99 years

7. Deferred Outflows/Inflows of Resources

The Port reports deferred outflows and deferred inflows separately on the Statement of Net Position. Deferred outflows represent a consumption of net assets that apply to a future period(s). Conversely, deferred inflows represent an acquisition of net assets that apply to a future period(s).

8. Employee Leave Benefits

Employee leave benefits are absences for which employees will be paid, such as vacation leave. The Port records employee leave benefits as an expense and liability when earned.

Each employee may carry forward 120 hours of vacation pay to the following year. Unused vacation pay is payable upon separation, retirement, or death.

Sick leave may accumulate up to 1,000 hours. Beginning in 2014, the Executive Director's contract allows him to be compensated for 100% of his sick pay upon termination. The Port began accruing this in 2014. No accrual is made for sick pay for other employees as it expires if unused.

9. 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.

10. Accrued Expenses

Accrued expenses consist of accrued leasehold, payroll, sales, and business taxes, employee withholdings, accrued wages payable, and abandoned property.

11. Long-Term Debt - See Note 10, *Long-Term Debt*.

12. Unearned Revenues

At December 31, 2019, the Port held $131,083 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2020.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand at December 31, 2019 was $1,200 in petty cash and change funds. As investments in the Washington Local Government Investment Pool have a maturity of three months or less when purchased, deposits in the Investment Pool are included in cash and cash equivalents. The carrying amount of the Port's deposits, including the Local Government Investment Pool (LGIP), was $3,465,480 and the bank balance was $3,466,680.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the Port 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's policy is that bank deposits and certificates of deposit must be entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. Investments Authorized

The Port may invest in all types of securities approved by State law. Those securities include:

1. Savings or time accounts, including certificates of deposit, in designated qualified public depositories in accordance with RCW 39.58.

2. Certificates of deposit in commercial banks, savings and loan associations, and mutual savings banks doing business in this state, but not holding collateral pursuant to RCW 39.58, in an amount not in excess of FDIC or FSLIC insurance coverage.

3. Certificates, notes, or bonds of the United States, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the government of the United States.

4. Federal home loan bank notes and bonds, Federal land bank bonds, Federal national mortgage association notes, debentures, and guaranteed certificates of participation.

5. Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve systems.

6. Bonds of the state of Washington and any local government in the State of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

7. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

8. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

Port staff invests surplus cash according to Port Resolution Number 13-12. Investment objectives, in priority order, are safety, liquidity, and return on investment.

C. Investments

Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port's Investment Portfolio. Securities within the portfolio are laddered, and limited to maximum terms of five years.

As of December 31, 2019, the Port held the following investments:

Investment Type	Fair Value	Less Than 1	1-3	More Than 3
		Investment Maturities (in Years)		
U.S. Treasuries	$ 1,995,352		$ 1,497,168	$ 498,184
U.S. Treasury STRIPS	$ 499,939		$ 499,939	
U.S Agencies	$ 11,579,496	$ 1,525,519	$ 4,029,682	$ 6,024,295
Certificate of Deposit	$ 712,686	$ 712,686		
Total Investments	$ 14,787,473	$ 2,238,205	$ 6,026,790	$ 6,522,478

In addition to the interest rate risk disclosed above, the Port's portfolio includes investments with fair value that are sensitive to interest rate changes.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Port manages this risk through its investment policy, which requires that only highly secure investments may be purchased.

At December 31, 2019, the Port's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BBBa and Below	Unrated
U.S. Treasuries	$ 1,995,352	$ 1,995,352	$ -	$ -	$ -	$ -	$ -
U.S. Treasury STRIPS	$ 499,939	$ 499,939					
U.S Agencies	$ 11,579,496	$ 11,579,496					
Certificate of Deposit	$ 712,686						$ 712,686
Totals	$ 14,787,473	$ 14,074,787	$ -	$ -	$ -	$ -	$ 712,686

Custodial Credit Risk: Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. All security transactions entered into by the Port of Edmonds are conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the Port are delivered against payment and held in a custodial safekeeping account. The Port has designated U.S. Bank as the third party custodian. Safekeeping receipts evidence all transactions. None of the Port's investments are held by counterparties.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Port's U.S. Treasury, U.S. Treasury STRIPS, and U.S. Agency investments are secured by the full faith and credit of the United States government. As all U.S. Treasury, U.S. Treasury STRIPS, and U.S. Agency bonds are backed by the full faith and credit of the United States government, the Port's investment policy does not require diversification of U.S. bonds. The Port's certificate of deposit is secured by the FDIC.

D. Investments in Local Government Investment Pool (LGIP)

The Port is a participant in the Local Government Investment Pool which was 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 GASB Statement Number 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.

As the maturity of LGIP investments is 3 months or less, the Port considers LGIP investments to be cash equivalents.

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

E. Investments Measured at Fair Value

The Port's investments, stated at fair value, are based on quoted market prices in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in the fair value of an investment is recognized as an increase or decrease in the investment asset and investment income.

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

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

As of December 31, 2019, the Port held the following investments measured at fair value:

Investments by Fair Value Level	12/31/2019	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	$ 1,995,352		$ 1,995,352	
U.S. Treasury STRIPS	$ 499,939		$ 499,939	
U.S Agencies	$ 11,579,496		$ 11,579,496	
Total Investments Measured at Fair Value	$ 14,074,787		$ 14,074,787	
Investments Measured at Amortized Cost				
Certificates of Deposit	$ 712,686			
Total Investments in Statement of Net Position	$ 14,787,473			
Investments Shown without Restriction	$ 14,787,473			

F. Change in Fair Value of Investments

Change in fair value of investments of $109,745 is the difference between the price at December 31, 2018 or at which the Port of Edmonds purchased the securities, whichever is later, and the fair value at December 31, 2019. GASB Statement Number 31, paragraph 7, requires the Port to "…report investments at fair value in the balance sheets. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties…" The market value or fair value is reported to the Port by U.S. Bank, the Port's third party safekeeping bank. If the Port holds the investments to maturity or call date, there will be no realized loss or gain.

G. Summary of Deposit and Investment Balances

The table below reconciles the Port's deposits and investment balances as of December 31, 2019:

	Total
Cash and Cash Equivalents	
Cash on Hand	$ 1,200
Deposits with Private Financial Institutions	$ 3,422,192
Snohomish County Treasurer	$ 3,156
LGIP	$ 40,132
Total Cash and Cash Equivalents	$ 3,466,680
Investments	
U.S. Treasuries	$ 1,995,352
U.S. Treasury STRIPS	$ 499,939
U.S Agencies	$ 11,579,496
Certificate of Deposit	$ 712,686
Total Investments	$ 14,787,473

NOTE 3 – PROPERTY TAXES

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

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

Property taxes are recorded as a receivable when levied, offset by an unearned revenue. During the year, property tax revenues are recognized equally over all twelve months. Property taxes collected in advance of the fiscal year to which it applies are 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 principle, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2019 was approximately $0.066 per $1,000 on an assessed valuation of $6,021,290,540 for a total regular tax levy of $400,000.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2019, was as follows:

	Beginning Balance 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	-	51,193	7,274	43,919
Total capital assets, not being depreciated	4,323,675	51,193	7,274	4,367,594
Capital assets, being depreciated				
Buildings	16,362,466	161,151	1,425	16,522,192
Marina and other improvements	33,048,321	-	-	33,048,321
Machinery and equipment	1,177,559	803,469	224,424	1,756,604
Total capital assets being depreciated	50,588,346	964,620	225,849	51,327,117
Less accumulated depreciation for				
Buildings	7,643,498	599,928	1,420	8,242,006
Marina and other improvements	19,688,655	703,847	-	20,392,502
Machinery and equipment	832,488	127,947	165,382	795,053
Total accumulated depreciation	28,164,641	$ 1,431,722	$ 166,802	$ 29,429,561
Total capital assets, being depreciated, net	$ 22,423,705			$ 21,897,556

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port has the following active construction projects as of December 31, 2019:

Project	Spent to Date	Remaining Commitment
Harbor Square Building 3 Phase 2 Repairs	39,778	19,173
	$ 39,778	$ 19,173

NOTE 6 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 7 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	(698,816)
Pension assets	$	-
Deferred outflows of resources	$	230,811
Deferred inflows of resources	$	(401,573)
Pension expense/expenditures	$	86,235

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS

Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2**
January – June 2019		
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%**
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.86%**	**7.90%**

The Port’s actual PERS plan contributions were $97,764 to PERS Plan 1 and $152,328 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. 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 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

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, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$659,931	$526,967	$411,604
PERS 2/3	$1,318,017	$171,849	($768,657)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the Port reported a total pension liability of $698,816 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$526,967
PERS 2/3	$171,849

At June 30, the (city/county/district's) proportionate share of the collective net pension liabilities was as follows (only report applicable plans):

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.013252%	0.013704%	0.000452%
PERS 2/3	0.017057%	0.017692%	0.000635%

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.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	$45,081
PERS 2/3	41,154
TOTAL	$86,235

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$0	($35,206)
Changes of assumptions	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$47,805	$0
TOTAL	$47,805	($35,206)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$49,234	($36,947)
Net difference between projected and actual investment earnings on pension plan investments	$0	($250,143)
Changes of assumptions	$4,401	($72,102)
Changes in proportion and differences between contributions and proportionate share of contributions	$50,276	($7,175)
Contributions subsequent to the measurement date	$79,095	$0
TOTAL	$183,006	($366,367)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$49,234	($36,947)
Net difference between projected and actual investment earnings on pension plan investments	$0	($285,349)
Changes of assumptions	$4,401	($72,102)
Changes in proportion and differences between contributions and proportionate share of contributions	$50,276	($7,175)
Contributions subsequent to the measurement date	$126,900	$0
TOTAL	$230,811	($401,573)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2020	($7,772)
2021	($18,409)
2022	($6,570)
2023	($2,455)
2024	
Thereafter	
TOTAL	**($35,206)**

Year ended December 31	PERS 2/3
2020	($70,125)
2021	($120,641)
2022	($49,195)
2023	($22,730)
2024	($5,419)
Thereafter	$5,655
TOTAL	**($262,455)**

NOTE 8 – 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, 2019:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$1,122,307
OPEB assets	$0
Deferred outflows of resources	$9,190
Deferred inflows of resources	$0
OPEB expenses/expenditures	$61,305

At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	N/A
Active employees	27
Total	32

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 of Edmonds 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.

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 subsidies, 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 at http://leg.wa.gov/osa/Pages/default.aspx.

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.

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.

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:

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

No inactive members entitled to but not currently receiving a benefit were not included in the calculation.

The actuary estimated retirement service for each active employee based on the average entry age of 35 with a minimum service of 1 year. For example, an age 47 member is assumed to have 12 years of service. Service is a component of benefit eligibility.

Assumptions made for retirement, disability, termination, and mortality were based on the *2018 PEBB OPEB 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 that 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.

Dental benefits were not included when calculating the Total OPEB Liability, as dental benefits represent less then 3% of the accrued benefit obligations under the *2018 PEBB OPEB AVR*.

Other assumptions include:

Discount Rate[1]	
Beginning of Measurement Year	3.87%
End of Measurement Year	3.50%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates[2]	Initial rate is approximately 7%, trends down to about 5% in 2020.
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
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 3.50%, 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.

Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	$1,341,097	**$1,122,307**	$949,944
Healthcare Trend	$928,501	**$1,122,307**	$1,377,449

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.

D. 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, 2019. The net OPEB liability of $1,122,307 is included as a noncurrent liability in the Statement of Net Position.

Total OPEB Liability at 7/1/2018	$ 1,079,896
Service Cost	$ 52,469
Interest	$ 43,460
Changes in Experience Data and Assumptions	$ (34,624)
Changes in Benefit Terms	$ -
Benefit Payments	$ (18,894)
Other	$ -
Total OPEB Liability at 6/30/2019	$ 1,122,307

The Port of Edmonds used 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 6/30/19 were $9,190.

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Changes of assumptions	$0	$0
Payments subsequent to the measurement date	$9,190	$0
TOTAL	$9,190	$0

E. 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. Even if the Port left the PEBB program, the Port would not be able to get the money out of the trust. The plan is funding on a pay-as-you go basis and there are no assets accumulating in a qualifying trust.

NOTE 9 – RISK MANAGEMENT

The Port Edmonds is a member of Enduris. RCW 48.62 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. The Pool was formed July 10, 1987 pursuant to the provisions of RCW 48.62 RCW, WAC 200-100, and RCW 39.34 when two counties and two 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, 2019, there were 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- $1,000,000 self-insured retention on liability loss - the member is responsible for the first $5,000 of the amount of each claim, while Enduris is responsible for the remaining $995,000 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 Officials’ 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.

NOTE 10 – LONG-TERM DEBT

The Port of Edmonds issues general obligation and revenue bonds to finance the acquisition, purchase, or construction of various projects. Bonded indebtedness has also been entered into in previous years to advance refund general obligation and revenue bonds. Both general obligation bonds and revenue bonds are repaid from revenues.

The Port of Edmonds did not have any outstanding general obligation bonds in 2019.

The revenue bonds outstanding during 2019 were as follows:

Purpose	Maturity	Interest Rate	Original Amount	2019 Installment
Refund of 2011 Special Revenue Bond which refunded the 2006 Special Revenue Bond which was used to acquire Harbor Square buildings.	2020	2.59%	$ 4,005,446	$ 1,481,109

The Port made the final revenue bond payment on December 31, 2019. As of December 31, 2019, the Port did not have any outstanding revenue bonds.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Revenue & Refunding Bonds Payable	$1,481,109	$ -	$1,481,109	$ -	$ -
Employee leave benefits	176,276	150,389	154,975	171,690	
Other post employment benefits	1,079,896	61,305	18,894	1,122,307	
Net pension liability	883,072	-	184,255	698,816	
Environmental remediation liability	612,500	-	-	612,500	
Underground storage tank retirement	-	250,000	-	250,000	
Total Long-Term Liabilities	$4,232,854	$ 461,694	$1,839,233	$ 2,855,313	$ -

NOTE 11 - LEASES

A. Port as Lessee

As of December 31, 2019, the Port had no material noncancelable contracts where the Port leases property as a lessee.

B. Port as Lessor

The Port, as a lessor, enters into operating leases with tenants for the use of land and facilities at the marina and its Harbor Square business park, under lease terms of 1 year to 30 years plus lease extensions. In addition, some properties are rented on a month to month basis. Port procedure is to negotiate all leases at fair market value, considering market conditions, economic factors, property condition, and location, as well as other factors that may impact negotiating lease prices.

The Port currently has approximately 45 noncancelable lease arrangements ranging in monthly payments between $400 and $27,000 with either fixed increases from 1 to 3 percent, Consumer Price Index rent escalation clauses, or market rate rent escalation clauses.

The Port's minimum future lease rental income on noncancelable operating lease terms remaining are as follows:

Year Ending December 31	Minimum Rental Income
2020	$ 2,073,978
2021	$ 1,689,457
2022	$ 1,259,412
2023	$ 1,159,573
2024	$ 1,104,291
2025-2029	$ 5,096,423
2030-2034	$ 3,786,240
2035-2039	$ 2,810,113
2040-2044	$ 474,252
Total	$ 19,453,740

The Port's leased properties involved are in part used by internal Port operations, or in part of a building with land, and/or parts of a land parcel. Therefore, it is not reasonably determinable to segregate the value of assets associated with producing minimum rental income from the value of the assets associated with an entire facility.

NOTE 12 – CONTINGENCIES AND LITIGATION

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

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

NOTE 13 – ENVIRONMENTAL REMEDIATION OBLIGATIONS

The Port of Edmonds is subject to laws and regulations relating to the protection of the environment. The Port's policy is to accrue environmental and cleanup related costs when it is both probable that a liability has been incurred and when the amount can be reasonably estimated.

In November 2006, the Governmental Accounting Standards Board issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007. The Port adopted this standard in 2008.

GASB Statement No. 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB Statement No. 49 identifies five "obligating events" that require a government agency to disclose future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the government agency must document the components of expected pollution remediation outlays that are reasonably estimable. At this time, the Port has determined that future cleanup costs associated with one site constitute the Port's pollution remediation obligations.

A. <u>Nature and Source of Pollution Remediation Obligations</u>

From 2003 to 2006, the Port of Edmonds was involved in cleaning up a property known as the Harbor Square property, which was purchased by the Port from the Union Oil Company in 1978. From 1924 to 1968, portions of the property were used as an oil and gasoline depot and distribution facility, a railcar cleaning facility, an asphalt batch plant, and heavy-equipment storage. Several remedial investigations were conducted at the property from 1989 to 2003. In June 2003, a supplemental site investigation was conducted at the direction of the Department of Ecology to further define the extent of contamination at the property identified during previous investigations, to help identify any additional areas of contamination, and to further evaluate any impacts to groundwater. The Port developed a remediation plan based on that investigation and commenced cleanup activities.

The Port's environmental engineering firm, Landau Associates, prepared a report for the Port of Edmonds in November 2003 that provided estimates of the cost of remediation activities at the Port of Edmonds' Harbor Square complex due to past industrial activities at the site. The estimated costs presented in the report are for all remediation activities anticipated at the site, which are described as Phase I through Phase III remediation in the report. Phase I and Phase II remediation efforts were essentially completed in 2005 and 2006. Phase III remediation remains to be completed.

B. <u>Amount of Estimated Liability</u>

The estimated cost of Phase III remediation was a range of $150,000 to $900,000, reflecting the uncertainty of the extent of contamination under existing structures that could not be readily accessed for assessment. Landau Associates estimates the liability to the Port of Edmonds associated with the future cleanup of known areas of contamination on Port property to be $175,000 to $1,050,000 (in 2008 dollars). The middle point of this estimated range is $612,500.

As per GASB Statement No. 49, "Estimates of a pollution remediation liability should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays due to, for example, changes in the remediation plan or operating conditions. These changes may include the type of equipment, facilities, and services that will be used, price increases or reductions for specific outlay elements such as ongoing monitoring requirements, changes in technology, and changes in legal or regulatory requirements."

The Port did not meet any benchmarks or receive new information that indicates changes in estimated outlays in 2019. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2019.

C. Methods and Assumptions Used for the Estimate

The majority of the contamination to be addressed in Phase III remediation is located under existing buildings; some areas of residual contamination (expected to be relatively small) are located outside building footprints, but underneath paved surfaces. Phase III activities were not undertaken due to the inaccessibility of the contaminated areas, although the Port has committed to remediation at such time that the structures at the Harbor Square complex are removed for future development.

The Port has chosen to use only the best case and worse case for the ranges of potential outcomes. As the Port does not have a reasonable basis for specifying the probability and amount of a most likely potential cash flow, it is using only two data points, a range of $175,000 to $1,050,000.

D. Potential for Changes

As Phase III remediation may only be completed when the Harbor Square property is redeveloped, this estimate may be revised due to price increases or reductions, technology, and applicable laws or regulations.

E. Estimated Recoveries Reducing the Liability

The Port does not expect to receive any recoveries to reduce this liability.

NOTE 14 – UNDERGROUND STORAGE TANK RETIREMENT OBLIGATION

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2018. The Port adopted this standard in 2019.

The Port owns and operates a marina fueling facility. The fuel dispensers are supplied by 3 12,000 gallon, double-walled underground storage tanks that were installed in 1995. Washington Administrative Code (WAC) 173-360A requires owners and operators to monitor the tanks for leakage, provide insurance coverage for all leakage, submit to periodic testing of the tanks and monitoring equipment, provide training for certain staff, and to properly close the underground storage tanks when they are no longer needed.

The Port has chosen to measure the ARO based on the cost estimate for decommissioning and removing one 20,000 gallon gasoline underground storage tank prepared by DH Environmental, Inc. in October 2019, for the Port of Seattle. The estimate totaled $82,382. Multiplying by the 3 tanks the Port owns, results in a liability of roughly $250,000. This amount will be reviewed annually to account for the effects of inflation or deflation, and to consider any factors significantly affecting the estimate; such as, changes in technology, changes in legal or regulatory requirements, and changes to the type of equipment or services that may be used to decommission the underground storage tanks.

GASB 83 is retroactive to the date of the internal obligating event in September 1995 and is effective over the life of the underground storage tanks. The tanks originally had a 20 year estimated life, which was reevaluated in 2019 and increased to 40 years.

Upon retirement of the underground storage tanks, the Port will fund the decommissioning out of current reserves. There are no assets restricted for the payment of this liability.

NOTE 15 – ACCOUNTING AND REPORTING CHANGES

The Port of Edmonds implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*, in 2019. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The implementation required recognition of an asset retirement obligation retroactively, causing an adjustment to the Port's beginning net position of $150,000.

NOTE 16 – SUBSEQUENT EVENTS

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, closing bars, restaurants, and other entertainment venues, and limiting gathering sizes. In March 2020, the Governor added a stay-home order, requiring the closure of non-essential businesses and requesting that employees work at home, if possible.

Due to these closures, many businesses in the community have experienced negative financial impacts. The Port leases space to many businesses that have been affected by the closures, and many have requested rent relief. The Port's marina services have closed temporarily, and some marina tenants have received reduced rent while they are receiving reduced access to their boats. The Port has also incurred additional costs to maintain and secure the facility, while protecting the health of staff and allowing financial activities like payroll, billing, and accounts payable to occur remotely.

The length of time these measures will be in place, and the full extent of the financial impact on the Port is unknown at this time.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Port was incorporated in December 1948 and operates under the laws of the State of Washington applicable to public port districts. The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through user charges. The Port is governed by an elected five member board.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Reporting

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

The Port's financial statements are reported using the economic resources measurement focus and the full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when 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.

All assets and all liabilities (whether current or noncurrent) associated with the Port's activity are included on the statement of net position. Net position is segregated into net investment in capital assets, and restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows on a separate statement that presents its operating, noncapital financing, capital and related financing, and investing activities.

The Port distinguishes between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for boating services. The Port also recognizes land and building lease revenue as operating revenue. Operating expenses for the Port include general operations, maintenance, general and administrative, and depreciation. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2018, the treasurer was holding $8,180,523 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2018 were approximately $368,000.

The Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments – See Note 3, *Deposits and Investments*.

3. Receivables

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 classifies prepaid rent from land and building tenants as unearned revenue in the current liability section of the financial statements.

Taxes receivable consists of property taxes and related interest and penalties (See Note 4, *Property Taxes*).

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes are considered liens on property, no estimated uncollectible amounts are established.

Interest receivable consists of amounts earned on investments at the end of the year.

4. Inventory

Inventory consists of fuel and workyard supplies held for sale to customers. Inventory is valued by the FIFO (first-in, first-out basis) cost method, which approximates market value.

5. Prepaid Expenses

Prepaid expenses include items that were paid in the current year but will not be used until the following year. Examples are insurance, dues, advertising, marketing programs, and software maintenance agreements.

6. Restricted Assets - Investments

Restricted Assets - Investments contains the debt service reserve for the Port's 2017 Special Revenue Bond. For additional information, see Note 3, *Deposits and Investments*, and Note 10, *Long Term Debt*.

7. Capital Assets and Depreciation - See Note 5, *Capital Assets and Depreciation*.

8. Deferred Outflows/Inflows of Resources

The Port reports deferred outflows and deferred inflows separately on the Statement of Net Position. Deferred outflows represent a consumption of net assets that apply to a future period(s). Conversely, deferred inflows represent an acquisition of net assets that apply to a future period(s).

9. Employee Leave Benefits

Employee leave benefits are absences for which employees will be paid, such as vacation leave. The Port records employee leave benefits as an expense and liability when earned.

Each employee may carry forward 120 hours of vacation pay to the following year. Unused vacation pay is payable upon separation, retirement, or death.

Sick leave may accumulate up to 1,000 hours. Beginning in 2014, the Executive Director's contract allows him to be compensated for 100% of his sick pay upon termination. The Port began accruing this in 2014. No accrual is made for sick pay for other employees as it expires if unused.

10. Pensions

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

11. Accrued Expenses

Accrued expenses consist of accrued leasehold, payroll, sales, and business taxes, employee withholdings, accrued wages payable, and abandoned property.

12. Long-Term Debt - See Note 10, *Long-Term Debt*.

13. Unearned Revenues

At December 31, 2018, the Port held $190,861 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2019.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

The Port's bank deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As investments in the Washington Local Government Investment Pool have a maturity of three months or less when purchased, deposits in the Investment Pool are included in cash and cash equivalents.

B. Investments Authorized

The Port may invest in all types of securities approved by State law. Those securities include:

1. Savings or time accounts, including certificates of deposit, in designated qualified public depositories in accordance with RCW 39.58.

2. Certificates of deposit in commercial banks, savings and loan associations, and mutual savings banks doing business in this state, but not holding collateral pursuant to RCW 39.58, in an amount not in excess of FDIC or FSLIC insurance coverage.

3. Certificates, notes, or bonds of the United States, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the government of the United States.

4. Federal home loan bank notes and bonds, Federal land bank bonds, Federal national mortgage association notes, debentures, and guaranteed certificates of participation.

5. Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve systems.

6. Bonds of the state of Washington and any local government in the State of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

7. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

8. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

Port staff invests surplus cash according to Port Resolution Number 13-12. Investment objectives, in priority order, are safety, liquidity, and return on investment.

C. Investments

Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port's Investment Portfolio. Securities within the portfolio are limited to maturity lengths of five years.

As of December 31, 2018, the Port held the following investments:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-3	More Than 3
U.S Agencies	$ 7,419,456	$ 1,502,095	$ 4,921,552	$ 995,809
Certificate of Deposit (restricted)	$ 706,329		$ 706,329	
Total Investments	$ 8,125,785	$ 1,502,095	$ 5,627,881	$ 995,809

In addition to the interest rate risk disclosed above, the Port's portfolio includes investments with fair value that are sensitive to interest rate changes.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Port manages this risk through its investment policy, which requires that only highly secure investments may be purchased.

At December 31, 2018, the Port's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BBBa and Below	Unrated
U.S. Agencies	$ 7,419,456	$ 7,419,456	$ -	$ -	$ -	$ -	$ -

Custodial Credit Risk: Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. All security transactions entered into by the Port of Edmonds are conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the Port are delivered against payment and held in a custodial safekeeping account. The Port has designated U.S. Bank as the third party custodian. Safekeeping receipts evidence all transactions. None of the Port's investments are held by counterparties.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Port's U.S. Agency investments are secured by the full faith and credit of the United States government. As all U.S. Agency bonds are backed by the full faith and credit of the United States government, the Port's investment policy does not require diversification of U.S. Agencies. The Port's certificate of deposit is secured by the FDIC.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Port does not have a formal policy for foreign currency risk.

Investments Measured at Fair Value

Investments, stated at fair value, are based on quoted market prices in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in the fair value of an investment is recognized as an increase or decrease in the investment asset and investment income.

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

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

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

			Fair Value Measurements Using			
Investments by Fair Value Level		12/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S Agencies	$	7,419,456		$	7,419,456	
Certificate of Deposit (restricted)	$	706,329		$	706,329	
Total Investments	$	8,125,785		$	8,125,785	

D. Change in Fair Value of Investments

Change in fair value of investments of $8,213 is the difference between the price at December 31, 2017 or at which the Port of Edmonds purchased the securities, whichever is later, and the fair value at December 31, 2018. GASB Statement Number 31, paragraph 7, requires the Port to "…report investments at fair value in the balance sheets. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties…" The market value or fair value is reported to the Port by U.S. Bank, the Port's third party safekeeping bank. If the Port holds the investments to maturity or call date, there will be no realized loss or gain.

E. Investments in Local Government Investment Pool (LGIP)

The Port is a participant in the Local Government Investment Pool which was 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 GASB Statement Number 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.

As the maturity of LGIP investments is 3 months or less, the Port considers LGIP investments to be cash equivalents.

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

F. Summary of Deposit and Investment Balances

The table below reconciles the Port's deposits and investment balances as of December 31, 2018:

	Total
Cash and Cash Equivalents	
Cash on Hand	$ 1,200
Deposits with Private Financial Institutions	$ 8,136,419
Snohomish County Treasurer	$ 3,686
LGIP	$ 39,218
Total Cash and Cash Equivalents	$ 8,180,523
Investments	
U.S. Agency	$ 7,419,456
Restricted Assets: Investments	
Certificate of Deposit	$ 706,329

NOTE 4 – PROPERTY TAXES

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

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

Property taxes are recorded as a receivable when levied, offset by an unearned revenue. During the year, property tax revenues are recognized equally over all twelve months. Property taxes collected in advance of the fiscal year to which it applies are 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 principle, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2018 was approximately $0.074 per $1,000 on an assessed valuation of $5,374,734,919 for a total regular tax levy of $400,000.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost, where historical cost is not known. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

When an asset is sold, retired, or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, is removed from the Port of Edmonds' capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method based on the following estimated useful lives:

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 15 years
Other Improvements	5 to 99 years

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

	Beginning Balance 1/1/2018	Increases	Decreases	Ending Balance 12/31/2018
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	97,820	296,140	393,960	0
Total capital assets, not being depreciated	4,421,495	296,140	393,960	4,323,675
Capital assets, being depreciated				
Buildings	16,610,526	385,987	634,047	16,362,466
Marina and other improvements	33,526,128	182,233	660,040	33,048,321
Machinery and equipment	1,201,845	59,721	84,007	1,177,559
Total capital assets being depreciated	51,338,499	627,941	1,378,094	50,588,346
Less accumulated depreciation for				
Buildings	7,445,030	638,558	440,090	7,643,498
Marina and other improvements	19,431,203	797,902	540,450	19,688,655
Machinery and equipment	829,736	82,300	79,548	832,488
Total accumulated depreciation	27,705,969	$ 1,518,760	$ 1,060,088	$ 28,164,641
Total capital assets, being depreciated, net	$ 23,632,530			$ 22,423,705

NOTE 6 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port did not have any active construction projects as of December 31, 2018.

NOTE 7 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 883,072
Pension assets	$0
Deferred outflows of resources	$ 200,047
Deferred inflows of resources	$ 350,412
Pension expense/expenditures	$91,572

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

<u>Contributions</u>

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

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

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

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

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

<u>Contributions</u>

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

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2**
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 Port's actual PERS plan contributions were $93,588 to PERS Plan 1 and $138,691 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%

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.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

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, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$727,333	$591,839	$474,474
PERS 2/3	$1,332,107	$291,233	$(562,167)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the Port reported a total pension liability of $883,072 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$591,839
PERS 2/3	$291,233
Total	$883,072

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.012421%	0.013252%	0.000831%
PERS 2/3	0.015976%	0.017057%	0.001081%

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 Port recognized pension expense as follows:

	Pension Expense
PERS 1	$92,555
PERS 2/3	$(983)
Total	$91,572

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$0	$(23,519)
Changes of assumptions	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$48,307	$0
TOTAL	$48,307	$(23,519)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$35,698	$(50,990)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(178,714)
Changes of assumptions	$3,407	$(82,882)
Changes in proportion and differences between contributions and proportionate share of contributions	$41,372	$(14,306)
Contributions subsequent to the measurement date	$71,263	$0
TOTAL	$151,740	$(326,892)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$35,698	$(50,990)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(202,232)
Changes of assumptions	$3,407	$(82,883)
Changes in proportion and differences between contributions and proportionate share of contributions	$41,372	$(14,306)
Contributions subsequent to the measurement date	$119,570	$0
TOTAL	$200,047	$(350,411)

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

Year ended December 31:	PERS Plan 1
2019	$1,029
2020	$(5,141)
2021	$(15,428)
2022	$(3,979)
2023	$0
Thereafter	$0
Total	$(23,519)

Year ended December 31:	PERS Plan 2/3
2019	$(26,551)
2020	$(55,480)
2021	$(104,142)
2022	$(35,260)
2023	$(9,745)
Thereafter	$(15,238)
Total	$(246,416)

NOTE 8 – 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	$1,079,896
OPEB assets	$0
Deferred outflows of resources	$7,824
Deferred inflows of resources	$0
OPEB expenses/expenditures	$26,654

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

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	N/A
Active employees	26
Total	31

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. <u>OPEB Plan Description</u>

The Port of Edmonds 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.

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 subsidies, 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 at http://leg.wa.gov/osa/Pages/default.aspx.

B. <u>Subsidies</u>

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.

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 that 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.

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.

Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	$1,298,768	**$1,079,896**	$907,596
Healthcare Trend	$890,269	**$1,079,896**	$1,328,302

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.

E. 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 $1,079,896 is included as a noncurrent liability in the Statement of Net Position.

Total OPEB Liability at 7/1/2017	$ 1,052,444
Service Cost	$ 61,926
Interest	$ 39,645
Changes in Experience Data and Assumptions	$ (60,067)
Changes in Benefit Terms	$ -
Benefit Payments	$ (14,052)
Other	$ -
Total OPEB Liability at 6/30/2018	$ 1,079,896

The Port of Edmonds used 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 6/30/18 were $7,824.

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Changes of assumptions	$0	$0
Payments subsequent to the measurement date	$7,824	$0
TOTAL	$7,824	$0

F. 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. Even if the Port left the PEBB program, the Port would not be able to get the money out of the trust. As of December 31, 2018, the plan was 0% funded.

NOTE 9 – RISK MANAGEMENT

The Port Edmonds is a member of Enduris. RCW 48.62 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 RCW 48.62, WAC 200-100, and RCW 39.34. Two counties and two 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 were 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.

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 $5,000 of the amount of each claim, while Enduris is responsible for the remaining $995,000 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.

NOTE 10 – LONG-TERM DEBT

The Port of Edmonds issues general obligation and revenue bonds to finance the acquisition, purchase, or construction of various projects. Both general obligation bonds and revenue bonds are repaid from revenues.

A. General Obligation Bonds

The Port of Edmonds did not have any outstanding general obligation bonds in 2018.

B. Revenue Bonds

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2018 Installment
Refund of 2011 Special Revenue Bond which refunded the 2006 Special Revenue Bond which was used to acquire Harbor Square buildings.	2020	2.59%	$ 4,005,446	$ 1,330,197

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	2017 Special Rev. Ref. Bonds Principal	2017 Special Rev. Ref. Bonds Interest
2019	1,365,603	22,512
2020	115,506	257
Total	$ 1,481,109	$ 22,769

The Port doesn't maintain a debt service fund as payments are made monthly. At December 31, 2018, restricted assets contain $706,329 in reserves as required by bond indentures.

The Port has pledged future Harbor Square revenues and net revenues of the Port to repay $4,005,446 in Special Revenue Refunding Bonds issued in January 2017. Proceeds from the 2017 bonds provided financing for refunding the 2011 bonds, which provided financing for refunding the 2006 Special Revenue Bond. Proceeds from the 2006 Special Revenue Bond were used to purchase the Harbor Square buildings and leasehold interest in the Harbor Square Property. The bonds are payable from Harbor Square revenue and net revenues of the Port, and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 37% of Port net revenues. The total principal and interest remaining to be paid on the bonds is $1,503,878. Principal and interest paid for the current year on the 2017 Special Revenue Bonds were $1,388,114. Pledged revenues were $9,186,261.

C. Changes in Long-Term Liabilities

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

	Beginning Balance 1/1/2018	Additions	Reductions	Ending Balance 12/31/2018	Due Within One Year
Bonds Payable:					
Revenue & Refunding Bonds	$2,811,307	$ -	$1,330,197	$ 1,481,109	$1,365,603
Premiums	-	-	-	-	-
Discounts	-	-	-	-	-
Total bonds payable	2,811,307	-	1,330,197	1,481,109	1,365,603
Employee leave benefits	157,109	119,171	100,004	176,276	
Other post employment benefits	715,363	1,079,896	715,363	1,079,896	
Net pension liability	1,144,476	883,072	1,144,476	883,072	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	$5,440,755	$2,082,139	$3,290,040	$ 4,232,854	$1,365,603

NOTE 11 - LEASES

A. Port as Lessee

As of December 31, 2018, the Port had no material noncancelable contracts where the Port leases property as a lessee.

B. Port as Lessor

The Port, as a lessor, enters into operating leases with tenants for the use of land and facilities at the marina and its Harbor Square business park, under lease terms of 1 year to 30 years plus lease extensions. In addition, some properties are rented on a month to month basis. Port procedure is to negotiate all leases at fair market value, considering market conditions, economic factors, property condition, and location, as well as other factors that may impact negotiating lease prices.

The Port currently has approximately 45 noncancelable lease arrangements ranging in monthly payments between $545 and $27,000 with either fixed increases from 1 to 3 percent, Consumer Price Index rent escalation clauses, or market rate rent escalation clauses. Approximately 25 of the noncancelable leases include contract terms allowing 1 to 5 lease extensions in 1 to 15 year terms.

The Port's minimum future lease rental income on noncancelable operating lease terms remaining are as follows:

Year Ending December 31	Minimum Rental Income	
2019	$	2,300,193
2020	$	1,837,684
2021	$	1,686,858
2022	$	1,610,392
2023	$	1,583,037
2024-2028	$	7,695,431
2029-2033	$	6,240,237
2034-2038	$	4,488,015
2039-2043	$	4,036,875
2044-2048	$	3,437,280
2049-2053	$	3,969,076
2054-2058	$	4,583,513
2059-2063	$	5,293,483
2064-2068	$	1,875,513
2069	$	115,829
Total	$	50,753,417

The Port's leased properties involved are in part used by internal Port operations, or in part of a building with land, and/or parts of a land parcel. Therefore, it is not reasonably determinable to segregate the value of assets associated with producing minimum rental income from the value of the assets associated with an entire facility.

NOTE 12 – CONTINGENCIES AND LITIGATION

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

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

NOTE 13 – POLLUTION REMEDIATION OBLIGATIONS

The Port of Edmonds is subject to laws and regulations relating to the protection of the environment. The Port's policy is to accrue environmental and cleanup related costs when it is both probable that a liability has been incurred and when the amount can be reasonably estimated.

In November 2006, the Governmental Accounting Standards Board issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007. The Port adopted this standard in 2008.

GASB Statement No. 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB Statement No. 49 identifies five "obligating events" that require a government agency to disclose future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the government agency must document the components of expected pollution remediation outlays that are reasonably estimable. At this time, the Port has determined that future cleanup costs associated with one site constitute the Port's pollution remediation obligations.

A. Nature and Source of Pollution Remediation Obligations

From 2003 to 2006, the Port of Edmonds was involved in cleaning up a property known as the Harbor Square property, which was purchased by the Port from the Union Oil Company in 1978. From 1924 to 1968, portions of the property were used as an oil and gasoline depot and distribution facility, a railcar cleaning facility, an asphalt batch plant, and heavy-equipment storage. Several remedial investigations were conducted at the property from 1989 to 2003. In June 2003, a supplemental site investigation was conducted at the direction of the Department of Ecology to further define the extent of contamination at the property identified during previous investigations, to help identify any additional areas of contamination, and to further evaluate any impacts to groundwater. The Port developed a remediation plan based on that investigation and commenced cleanup activities.

The Port's environmental engineering firm, Landau Associates, prepared a report for the Port of Edmonds in November 2003 that provided estimates of the cost of remediation activities at the Port of Edmonds' Harbor Square complex due to past industrial activities at the site. The estimated costs presented in the report are for all remediation activities anticipated at the site, which are described as Phase I through Phase III remediation in the report. Phase I and Phase II remediation efforts were essentially completed in 2005 and 2006. Phase III remediation remains to be completed.

B. Amount of Estimated Liability

The estimated cost of Phase III remediation was a range of $150,000 to $900,000, reflecting the uncertainty of the extent of contamination under existing structures that could not be readily accessed for assessment. Landau Associates estimates the liability to the Port of Edmonds associated with the future cleanup of known areas of contamination on Port property to be $175,000 to $1,050,000 (in 2008 dollars). The middle point of this estimated range is $612,500.

The Governmental Accounting Standards Board implemented new standards for recording pollution remediation obligations for financial periods beginning after December 15, 2007. The Port increased its liability from $175,000 in 2007 to $612,500 in 2008 in accordance with these standards.

As per GASB Statement No. 49, "Estimates of a pollution remediation liability should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays due to, for example, changes in the remediation plan or operating conditions. These changes may include the type of equipment, facilities, and services that will be used, price increases or reductions for specific outlay elements such as ongoing monitoring requirements, changes in technology, and changes in legal or regulatory requirements."

The Port did not meet any benchmarks or receive new information that indicates changes in estimated outlays in 2018. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2018.

C. Methods and Assumptions Used for the Estimate

The majority of the contamination to be addressed in Phase III remediation is located under existing buildings; some areas of residual contamination (expected to be relatively small) are located outside building footprints, but underneath paved surfaces. Phase III activities were not undertaken due to the inaccessibility of the contaminated areas, although the Port has committed to remediation at such time that the structures at the Harbor Square complex are removed for future development.

The Port has chosen to use only the best case and worse case for the ranges of potential outcomes. As the Port does not have a reasonable basis for specifying the probability and amount of a most likely potential cash flow, it is using only two data points, a range of $175,000 to $1,050,000.

D. Potential for Changes

As Phase III remediation may only be completed when the Harbor Square property is redeveloped, this estimate may be revised due to price increases or reductions, technology, and applicable laws or regulations.

E. Estimated Recoveries Reducing the Liability

The Port does not expect to receive any recoveries to reduce this liability.

NOTE 14 – ACCOUNTING AND REPORTING CHANGES

The Port of Edmonds implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in 2018. The Statement required the Port to reverse its previous postemployment benefit that was accrued under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other* *than Pensions*, and to accrue a liability for other postemployment benefits to catch up for previous years. The offset to this liability was to Net Position. The net change to Net Position was a reduction of $330,055.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

In 2016, the Port accrued Claims for Damages of $14,160 to account for damages occurred to boats in 2016, but for which claims were not yet received. Claims of $5,000 were received in 2017, but the remainder didn't materialize. In 2018, the Port backed out the Claims for Damages liability with an offset to Net Position in the amount of $9,160.

Port of Edmonds
Schedule of Proportionate Share of the Net Pension Liability
Washington State Public Employee Retirement Systems Plan 1
As of June 30, 2019

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset)	0.014396%	0.013921%	0.012421%	0.013252%	0.013704%
Employer's proportionate share of the net pension liability	$ 753,045	$ 747,623	$ 589,386	$ 591,839	$ 526,967
TOTAL	$ 753,045	$ 747,623	$ 589,386	$ 591,839	$ 526,967
Employer's covered employee payroll	$1,561,301	$1,570,980	$1,566,327	$1,762,667	$ 1,923,048
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	48.23%	47.59%	37.63%	33.58%	27.40%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%

Port of Edmonds

Schedule of Proportionate Share of the Net Pension Liability

Washington State Public Employee Retirement Systems Plans 2 & 3

As of June 30, 2019

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset)	0.016797%	0.016216%	0.015976%	0.017057%	0.017692%
Employer's proportionate share of the net pension liability	$ 600,166	$ 816,463	$ 555,090	$ 291,233	$ 171,849
TOTAL	$ 600,166	$ 816,463	$ 555,090	$ 291,233	$ 171,849
Employer's covered employee payroll	$1,490,532	$1,505,056	$1,566,327	$1,762,667	$1,923,048
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.25%	35.44%	16.52%	8.94%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%

Port of Edmonds
Schedule of Employer Contributions
Washington State Employee Retirement Systems Plan 1
As of December 31, 2019

	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	$ 71,356	$ 76,567	$ 80,995	$ 93,588	$ 97,764
Contributions in relation to the statutorily or contractually required contributions	$ (71,356)	$ (76,567)	$ (80,995)	$ (93,588)	$ (97,764)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$1,538,725	$1,564,005	$1,652,801	$1,849,424	$1,974,739
Contributions as a percentage of covered employee payroll	4.64%	4.90%	4.90%	5.06%	4.95%

Port of Edmonds
Schedule of Employer Contributions
Washington State Employee Retirement Systems Plans 2 & 3
As of December 31, 2019

	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	$ 82,765	$ 95,473	$ 113,423	$ 138,691	$ 152,328
Contributions in relation to the statutorily or contractually required contributions	$ (82,765)	$ (95,473)	$ (113,423)	$ (138,691)	$ (152,328)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$1,469,808	$1,532,480	$1,652,801	$1,849,424	$1,974,739
Contributions as a percentage of covered employee payroll	5.63%	6.23%	6.86%	7.50%	7.71%

Port of Edmonds
Schedule of Changes in Total OPEB Liability and Related Ratios
As of June 30, 2019

	2018	2019
Total OPEB liability - beginning	$ 1,052,444	$1,079,896
Service cost	61,926	$52,469
Interest	39,645	$43,460
Changes in benefit terms	-	$0
Changes in experience data and assumptions	(60,067)	($34,624)
Benefit payments	(14,052)	($18,894)
Other changes	-	-
Total OPEB liability - ending	$ 1,079,896	$ 1,122,307
Covered-employee payroll	$ 1,762,667	$ 1,923,048
Total OPEB liability as a % of covered payroll	61.26%	58.36%

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.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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