



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Port of Anacortes

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

Published April 30, 2020

Report No. 1026136





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

April 30, 2020

Board of Commissioners
Port of Anacortes
Anacortes, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive.

Pat McCarthy
State Auditor
Olympia, WA

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

**Port of Anacortes
January 1, 2019 through December 31, 2019**

Board of Commissioners
Port of Anacortes
Anacortes, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Anacortes, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated April 23, 2020.

As discussed in Note 17 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port. Management's plans in response to this matter are also described in Note 17.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

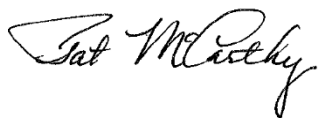
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy
State Auditor
Olympia, WA

April 23, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Anacortes January 1, 2019 through December 31, 2019

Board of Commissioners
Port of Anacortes
Anacortes, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Anacortes, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

Matter of Emphasis

As discussed in Note 17 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port. Management's plans in response to this matter are also described in Note 17. 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 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 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.

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

Pat McCarthy
State Auditor
Olympia, WA

April 23, 2020

FINANCIAL SECTION

Port of Anacortes January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2019

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2019

PORT OF ANACORTES
Management's Discussion and Analysis
December 31, 2019

Introduction

The following is the Port of Anacortes' (the Port's) Management Discussion and Analysis of financial activities and performance for the fiscal year ended December 31, 2019, with selected comparative information for the year ended December 31, 2018. Please read it in conjunction with the financial statements and notes to the financial statements, which immediately follow this discussion.

The Port is a Special Purpose Municipal Government, created in 1926 under provision of the Revised Code of Washington (RCW Title 53). The Port is independent from other local or state governments and has geographic boundaries that consist of Fidalgo, Guemes, Cypress, Sinclair, and other neighboring islands, and a small strip of land bordering Padilla Bay up to and including Samish Island. The Port's primary mission is the fostering of economic development via job creation and maintenance of family wage jobs, while protecting the quality of life, needs, and desires for the citizens of the district.

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

Overview of the Financial Statements

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

The basic financial statements include; the *Statement of Net Position*, the *Statement of Revenues, Expenses, and Changes in Fund Net Position*, and the *Statement of Cash Flows*.

The *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position* indicate whether the Port's financial position has improved because of the year's activities. The *Statement of Net Position* provides information on all of the Port's assets, liabilities, and deferred inflows and outflows of resources. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The *Statement of Revenues, Expenses, and Changes in Fund Net Position* show how the Port's net position changed during the year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows (accrual basis).

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

Financial Analysis

Condensed Financial Position Information

The *Statement of Net Position* reflects the Port's financial position at year-end. Financial position is represented by the difference between assets owned and deferred outflows, and liabilities owed and deferred inflows at a specific point in time. The difference between the two is net position. As previously noted, changes in net position over time can be an indicator of the Port's financial position.

Financial Highlights

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by \$52.014 million (reported as total net position). This is an increase of \$6.904 million over the prior year. While a positive net income was a contributor, the \$4.786 million net decrease in the Port's environmental liability was the major cause of the increase in net position. The reduction in the environmental liability was due, in large part, to an interim action agreement with the Washington State Department of Ecology on the Port's Quiet Cove site (see Note 12).
- Total cash as of December 31, 2019 of \$9.402 million was a decrease of \$3.042 million over the prior year. The Port completed approximately \$5.3 million in new property acquisitions in 2019, utilizing available cash and preserving the Port's debt capacity for future capital improvement projects, including the North and West Basin Redevelopment project.
- Total liabilities decreased \$5.420 million over the prior year. As discussed above, the interim action agreement on Quiet Cove decreased the Port's environmental remediation liability substantially and the Port continued to pay down its outstanding general obligation bonds, while acquiring no new debt in 2019.

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

	2019	2018
Current assets	\$ 13,392,080	\$ 16,031,424
Capital assets, net	57,385,538	53,638,828
Other noncurrent assets	270,000	134,675
Total Assets	71,047,618	69,804,927
Total Deferred Outflows of Resources	688,066	403,714
Current liabilities	8,382,221	7,886,123
Noncurrent liabilities	10,582,134	16,498,604
Total Liabilities	18,964,355	24,384,727
Total Deferred Inflows of Resources	757,137	713,602
Net Position:		
Net invested in capital assets	50,796,945	45,862,041
Unrestricted	1,217,247	(751,729)
Total Net Position	\$ 52,014,192	\$ 45,110,312

Summary of Operations and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Fund Net Position* presents how the Port's net position changed during the current fiscal year as a result of operations. The Port employs an accounting method that records revenue and expenses when they are incurred, regardless of when cash is exchanged. Thus, some revenues and expenses reported in this statement may affect future period cash flows.

Revenues:

Total operating revenues increased by approximately \$1.041 million, or 6.1%, over 2018 revenues. Operating grants associated with an Airport project and a slow, but steadily expanding economy contributed to these results, as detailed below:

- Airport revenues nearly doubled, increasing from just under \$418,000 in 2018 to over \$820,000 in 2019. Almost all of this increase is due to Federal Aviation Administration and Washington State Department of Transportation grants, which funded over 90% of a routine fog seal repair and maintenance project. Removing these grants, revenues were approximately \$20,000 greater than the prior year. While there were no major changes in the Airport's leasehold tenants (the primary source of Airport revenues), moderate rate increases and higher fuel prices contributed to increased lease revenue and gross fuel sales.
- Total revenues reported at the Marina increased approximately \$298,000 from the prior year, as overall the Marina experienced increased volumes in most every aspect of its operation. Moorage revenues increased over \$208,000, or 4.4%. Contributing factors were 3% rate increases and a goal-setting 16,000+ guest boater nights. At the fuel dock, sales topped 1.245 million gallons, an increase of 8% over 2018.
- Marine Terminal revenues increased \$331,000 or 5.2% over 2018, however, a large portion of this increase was handling revenues, a pass-through of longshore/stevedoring expense. In 2019, the Port moved over 355,000 metric tons of petroleum coke and prilled sulfur (the Port's main bulk product exports) which is an increase of about 3% over 2018.
- The Port continued to experience stable occupancy of its leasehold facilities and increased popularity of its event venues for public and private events. However, the CPI trended below 2% and the Port saw fewer operating grants in 2019. In total, Properties revenues rose only about \$10,000 over the prior year.

Expenses:

- 2019 operating expenses, before depreciation, increased by \$996,000 or 7.5% over 2018 operating expenses. This increase in expense was primarily due to the continued investment in personnel, a continuous improvement focus of Port facilities (in terms of safety, efficiency, and customer service), and increased costs associated with revenue generating opportunities.
- Depreciation expense increased \$233,000 or just over 10%. While some of this is due to new assets placed in service, the Port completed a rub board/fender system replacement project in 2019 at its Curtis Wharf facility, which required a write-off of the remaining depreciable balance of the previous fender system.
- Operating income, after depreciation, was \$1.398 million, a slight decrease from the \$1.585 million reported in 2018, but well ahead of the \$519,000 budgeted.

Non-Operating (including Environmental Activity):

- Non-operating revenue for the year ended December 31, 2019 was \$1.887 million, of which, \$1.553 million was taxes levied. Property tax funds are used for property acquisition, industrial development including environmental costs, debt service for general obligation bonds and public access improvements. Property tax funds are not used to support general operations. The Port has historically levied a tax well below the maximum allowed. The 2018 tax levy of \$649,000 was approximately \$0.10/\$1,000 of assessed value. In 2019, in order to remain nimble

to new opportunities such as property acquisitions and capital investment to attract new business, the tax levy was increased to \$1.553 million or \$0.23/\$1,000.

- Non-operating expense for the year ended December 31, 2019 was \$842,000, of which \$315,000 was general obligation bond interest expense. The Port has two outstanding general obligation bonds that mature in 2024. The remaining \$527,000 was loss on disposal of fixed assets associated with the demolition of two residential houses and the transfer of the Olson Building to the Anacortes Housing Authority in early 2019.
- Environmental activities totaled a net income of \$4.655 million, primarily due to a signed interim action agreement with the Washington State Department of Ecology on the Quiet Cove site. While previous estimates were based on significant upland and in-water work, the interim action provides more certainty to the planned remediation and resulted in a refinement of the overall project estimate. The Port anticipates remediation activities to be substantially completed by the end of 2020.

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

	2019	2018
Airport	\$ 820,171	\$ 417,571
Marina	9,176,568	8,878,380
Marine Terminal	6,630,622	6,299,959
Properties	1,576,577	1,566,740
Total Operating Revenues	18,203,938	17,162,650
General operations	9,134,680	9,211,060
Facilities	1,998,339	1,174,029
General and administrative	3,158,181	2,910,539
Depreciation	2,514,362	2,281,684
Total Operating Expenses	16,805,562	15,577,312
NET OPERATING INCOME	1,398,376	1,585,338
Non-operating revenues	1,886,656	963,941
Non-operating expenses	(842,064)	(363,783)
Net environmental activities	4,655,354	2,085,597
Total Non-Operating and Environmental	5,699,946	2,685,755
INCOME BEFORE CAPITAL CONTRIBUTIONS	7,098,322	4,271,093
Capital grants and contributions	-	321,926
INCREASE IN NET POSITION	7,098,322	4,593,019
NET POSITION – BEGINNING OF PERIOD	45,110,312	40,517,293
CHANGE IN ACCOUNTING PRINCIPLE (NOTE 15)	(194,442)	-
NET POSITION – END OF PERIOD	\$ 52,014,192	\$ 45,110,312

Capital Assets and Debt Administration

Capital Assets

The Port's capital assets includes land, facilities (structures/buildings), machinery and equipment, and construction in progress. The Port's total net capital assets as of December 31, 2019 totaled \$57.386 million (net of accumulated depreciation). This is a net increase of \$3.747 million over the prior year.

The Port completed multiple property transactions in 2019:

- Rockwell Property Purchase: The Rockwell property, comprising four parcels adjacent to the Anacortes Airport, is approximately 7.5 acres in size, is zoned light manufacturing and holds strong potential for the Port as support for Airport operations or as an industrial park to further the Port's mission of job creation. The \$1.502 million transaction closed in March 2019 and was funded with property tax funds on hand.
- 1117 3rd Street Purchase: This 6,100 square foot lot and single family home on the corner of 3rd Street and N Avenue in Anacortes, is located near the Port's Quiet Cove site and Curtis Wharf facility. The \$400,000 transaction closed in June 2019 with property tax funds on hand. Tenant improvements to convert the home to an office and lab facility allowed the Port to relocate a long-term tenant from the Marina and transition the previous leased location to much needed boat trailer and truck parking.
- Bartholomew Property Purchase: The Bartholomew property, comprising seven parcels, totaling 4.1 acres, is located at 12441-12493 Bartholomew Road, just off Highway 20 and Thompson Road. This property is the first of the Port's property to be zoned heavy manufacturing and holds strong potential for industrial development, furthering the Port's mission of economic development and job creation. The \$3.357 million transaction closed in November 2019 and was paid via an inter-fund loan from the Construction Fund to the Tax Fund. Future property tax collections will repay the loan on an interest free basis.
- Olson Building Transfer / Demo of Structures: In 2015, the Port acquired the property known as the Marine Supply and Hardware Block, located between 2nd and 3rd Streets and O and Commercial Avenues, in support of its Marine Terminal. The transaction included just under two acres, two residential homes, the Olson Building and the Marine Supply & Hardware Building. In February 2019, the Port demolished the two residential homes after they were declared surplus, and after an unsuccessful public bid process. This allowed the Port to convert the back half of the Marine Supply and Hardware block to laydown/storage area for various tenants. As of December 31, 2019, the space is fully occupied. In March 2019, the Port closed on a transaction transferring the Olson Building and the property on which it is located to the Anacortes Housing Authority, and Lot 18 (the "Adjacent Lot") to the City of Anacortes in exchange for an alleyway vacation. The Anacortes Housing Authority desired to obtain the Olson Building and Adjacent Lot to fulfill its mission of workforce housing. The City desired to obtain the Adjacent Lot, vacate an existing alleyway on the Marine Supply and Hardware Block, and transfer the Adjacent Lot to the Anacortes Housing Authority upon vacation. The Port recognized that development of workforce housing is an important component of economic development and the alleyway vacation was a key factor in the back half lot development into storage and laydown area. These transactions resulted in a net loss on disposal of fixed assets of approximately \$537,000.

In terms of capital improvement projects, the most significant project completed in 2019 was an \$850,000 Curtis Wharf rub board and fender replacement project. This project, which included replacement of the damaged timber rub boards with fiber reinforced plastic vertical rub boards, provided infrastructure support for the pier itself, while also protecting the commercial vessels and tugs who utilize Curtis Wharf. Other completed projects included \$283,000 in electrical upgrades to the web storage lockers at the Marina, nearly \$300,000 in lot improvements and security cameras to the O Avenue laydown area, and

over \$200,000 in new equipment purchases to include a light-duty marina truck, a heavy-duty maintenance truck, a forklift, and a portable restroom facility in support of events.

In late 2019, after two years in permitting, the Port received all necessary approvals to move forward with the Marina's A-Dock recapitalization project. Permits were also approved, around the same time, for a P-Q dock catwalk for increased pedestrian safety, for Pier 1 piling repairs, and for Curtis Wharf corrosion repairs and cathodic protection. In total, the Port reported over \$1.148 million in construction- in-progress as of December 31, 2019, and has aggressive plans in 2020 to make significant progress on these projects as well as continued planning towards the North and West Basin Redevelopment. Additional information on the Port's capital assets activity may be found in Note 4 in the *Notes to the Financial Statements*.

Long-Term Debt

Long-term debt (net of current portion) totaled \$5.295 million as of December 31, 2019, consisting of outstanding general obligation bonds, which mature in 2024. This is a decrease of \$1.210 million over the prior year. No new debt was acquired or issued in 2019, and the Port does not have any outstanding revenue bonds, lines of credit, or other bank financing.

The current portion of long-term debt, including accrued interest payable, totaled \$1.289 million as of year-end. Additional information on the Port's long-term debt can be found in Note 9 in the *Notes to the Financial Statements*.

Economic Factors and the 2020 Budget

Anacortes, located on Fidalgo Island, is most notably known for the Washington State Ferries system, servicing the San Juan Islands and British Columbia. Thus, it is a popular tourist destination for those visiting the Islands, including recreational boaters. The town has historically been a mecca for commercial anglers and marine trades, such as yacht building and repair, yacht brokerage firms and whale watching tours. In the 1950's, oil companies built two large refineries (currently operated by Marathon Petroleum Corporation, formerly Andeavor, formerly Tesoro, and Shell Corporations) near town and today, refining remains the largest industry in the area. The Port of Anacortes, with one of eight natural deep water marine terminal facilities in Puget Sound, its nearly 1,000 slip marina, its small airport, and its roughly 90 acres of commercial properties, is instrumental to the success and economic development of the community.

Economic Factors

- For over 10 years now (a new record for this country) the economy has been steadily improving and the Port has seen significant increases in operating revenues. This has allowed the Port to reduce its long-term debt, maintain healthy cash reserves, and most recently, provided the needed capital to purchase three key properties providing significant growth potential. However, the prolonged period of economic recovery is concerning to economists and tends to suggest a recessionary period. While the Port was successful during the tough years of 2007-2010, the Port remains attentive to economic indicators and works to position itself for progress even in a downturn. In February 2019, the Port, in partnership with the City of Anacortes and the Economic Development Alliance of Skagit County executed the Anacortes Maritime Strategic Plan. This 10-year plan, which promotes a sustainable and expanding maritime economy, will serve as a blueprint to follow over the next decade to advance and strengthen the foundations of the maritime industry in Anacortes. While the focus remains on economic development and bettering the community, the Port's aging infrastructure and deferred maintenance costs remain a challenge. Leveraging operating revenues, tax dollars, grant opportunities, and debt capacity, the

Port continues to invest in critical infrastructure and assets, to achieve world-class customer service and facilities.

- In 2019, the Port moved ahead, achieving 30% design, with the *North and West Basin Redevelopment*, formed from the 2018 *Transit Shed and Cap Santé Marina Redevelopment Strategy*. The North and West Basin Redevelopment will accomplish two major items: 1) the return of Pier 1 and the Transit Shed to its original industrial use, and 2) kick start development of the Marina's North and West Basin, bringing more people to downtown businesses and more visitors to the Marina. To this end, the Port has a Memorandum of Understanding with the City of Anacortes to work collaboratively to achieve a long-range vision for the Marina uplands, benefiting all of Anacortes and its residents. The Port has budgeted \$875,000 in 2020 to advance from 30% to 100% design on the redevelopment project in continued cooperation with two key stakeholder advisory groups and independent consultants.
- As previously mentioned, oil refining is the largest industry in the area. Two by-products generated as a result of the refining process, petroleum coke and prilled sulfur, are shipped via vessel and barge from the Port's Pier 2 Marine Terminal facility to customers in Canada and the Asian markets, under multi-year pricing agreements with Shell Puget Sound Refinery and Chemtrade Sulex, Inc. The current agreement with Chemtrade Sulex is effective through May 31, 2021 (with an additional option to extend for five years). The current agreement with Shell Puget Sound Refinery renegotiated in 2018, was effective January 1, 2019. This five-year agreement includes a minimum annual guarantee and while this is a major accomplishment in securing the Port's revenues relative to petroleum coke, the Marine Terminal is still underutilized. The Port was recently awarded a \$50,000 Community Economic Revitalization Board (CERB) grant to complete a Marine Terminal Modernization Feasibility Study, intended to retain the current products and research additional opportunities to increase the Marine Terminal's utilization.
- The Port maintains vibrant land-based businesses by providing improved property rentals, ground leases, and warehouse space for several large employers, including the Washington State Ferry System, Dakota Creek Industries, Cortland Company, Transpac Marinas, the Northwest Marine Skills & Technical Academy, Anthony's Restaurant, and many other tenants, most of which are secured under long-term leases. The Port recognizes that acquisitions are paramount to expanding the Port's operations and providing opportunities for economic development and growth. For example, in 2011, the Port acquired the temporary dog park adjacent to the Marina's North and West basin. This property is a major component to the North and West Basin Redevelopment Plan discussed above, and will likely provide, at least in part, the site for the future multi-use events center. Additionally, in 2015, the Port purchased the city block located between 2nd and 3rd Streets and O and Commercial Avenues, known as the Marine Supply and Hardware block in support of Marine Terminal operations. In 2019, the back half of that property was cleared and improved to provide storage and laydown to various customers, such as Trident Seafoods and Crowley. This new space was fully occupied within weeks of completion. In 2019, the Port purchased three properties; i) 7+ acres zoned light manufacturing, adjacent to the Airport, serving as buffer property and for future industrial or commercial development, ii) 4+ acres zoned heavy manufacturing for immediate industrial use and potential future development, and iii) 6,000 square foot buffer property adjacent Quiet Cove and Curtis Wharf providing an immediate leasing opportunity.
- The Port continues to manage its environmental remediation obligations via grant funds in cooperation with the Washington State Department of Ecology. To date, clean-ups have occurred and are significantly completed at the Cap Santé Marine site, the in-water portion of Dakota Creek

Shipyard (DCI), the former Scott Paper Mill Site, and the former Shell Tank Farm site. 2020 will bring post-construction monitoring at the completed sites and continued planning and testing for remediation efforts at the Former Pier 2 Log Haul Out site (also known as “Log Pocket”), and the uplands portion of DCI. Additionally, the Port anticipates commencement of clean-up activities of the uplands portion of the Quiet Cove site, pursuant an interim action. Critical to the ongoing success of the environmental program is the funding of clean-up activities by the Model Toxics Control Act (MTCA), which is funded through several different mechanisms, including a tax assessed on hazardous materials. In recent years, MTCA fund balances were significantly overspent (due to a variety of factors including reduced revenues from historically low prices on petroleum products), but through concerted efforts at the state level, shortfalls were covered with bond packages and the Port has continued to receive necessary awards to advance clean-up projects each biennium. The Port currently has over \$5.5 million in grant awards, guaranteed through June 30, 2021. MTCA funding remains a legislative priority for the Port.

2020 Budget

The Port’s 2020 budget conservatively assumes no new business or revenue streams. Accordingly, operating revenues and expenses are forecast at figures very consistent with actual results of 2019. Revenues are forecast at \$17.861 million, which would be a slight decrease over 2019 actual revenues of \$18.204 million. This decrease is attributed to Airport operating grants received in 2019, but not anticipated in 2020 as the project they supported has been completed. In terms of expenses, forecast is largely business as usual, though additional staff members to support the facilities and marina teams are budgeted. Operating expenses are forecast at \$17.284 million, which is a slight increase over 2019 actual expenses of \$16.806 million.

As discussed previously, the last few years of economic growth has enabled the Port to maintain its capital improvement plan while setting aside cash for future projects and paying down existing debt. The Commission again levied property taxes at the maximum allowable in 2020 to give the Port the ability to remain nimble as opportunities arise and to provide funds necessary to move forward the North and West Basin Redevelopment Plan. These factors contributed to an aggressive five-year capital improvement plan that contemplates over \$41 million in projects across all operating areas at the Port. The 2020 capital budget, in particular, totals \$8.421 million. At the Airport, the Port will embark on planning efforts towards the maintenance and improvement of the stormwater detention pond to meet existing and future capacity needs. At the Marina, with permits now in hand, the Port anticipates significant progress on A-Dock Recapitalization and estimates completion in 2021. The Port also anticipates completing a project to upgrade electrical service at B-dock, primarily used by commercial fishermen and other commercial marine businesses, and to install an additional high speed fuel dispenser at the fuel dock. The north basin docks, specifically O, P & Q docks, are the next in line for recapitalization and funds for remedial repairs in the short-term, round out the Port’s 2020 capital plans at the Marina. At the Marine Terminal, structural piling repairs to Pier 1 will be completed, as will Phase 1 of the Curtis Wharf corrosion repairs and cathodic protection system. Planning and design, as mentioned earlier, will continue on the North and West Basin Redevelopment as well as planning towards improvements on the new Rockwell property purchased in 2019. The Port anticipates completing the 2020 CIP with cash from operations, property tax collections, and proceeds from a bond issuance, tentatively planned for the third quarter.

Requests for Information

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

PORT OF ANACORTES
STATEMENT OF NET POSITION
December 31, 2019

ASSETS

Current Assets

Cash and cash equivalents (Note 1)	\$	9,401,563
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Other Current Assets

Taxes receivable		14,646
Accounts receivable (net of allowance for uncollectible)		1,605,145
Interest receivable		12,309
Due from others		253,663
Fuel inventory		57,807
Prepaid expenses		255,739
Current portion of environmental remediation		1,791,208
Total Other Current Assets		3,990,517

Total Current Assets		13,392,080
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Noncurrent Assets

Capital Assets Not Being Depreciated (Note 4)

Land		22,327,808
Construction in progress		1,147,526
Total Capital Assets Not Being Depreciated		23,475,334

Capital Assets Being Depreciated (Note 4)

Facilities		72,502,841
Equipment		4,898,521
Total Capital Assets Being Depreciated		77,401,362
Accumulated depreciation		(43,491,158)
Total Net Capital Assets		57,385,538

Other Noncurrent Assets

Environmental remediation (Note 12)		270,000
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TOTAL ASSETS

	\$	71,047,618
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DEFERRED OUTFLOWS OF RESOURCES

Bond discounts		7,393
Deferred charge on refunding		110,255
Deferred outflows – pensions (Note 7)		315,196
Deferred outflows – asset retirement obligation (Note 13)		255,222

TOTAL DEFERRED OUTFLOWS OF RESOURCES

	\$	688,066
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The notes to the financial statements are an integral part of this statement.

PORT OF ANACORTES
STATEMENT OF NET POSITION
December 31, 2019

LIABILITIES

Current Liabilities

Warrants payable	\$ 172,016
Accounts payable	1,660,706
Accrued liabilities	799,090
Unearned income	214,703
Interest payable	78,995
Current portion of long-term debt (Note 9)	1,210,000
Current portion of environmental remediation (Note 12)	4,246,711
	<hr/>
Total Current Liabilities	8,382,221

Noncurrent Liabilities

General obligation bonds (Note 9)	5,295,000
Net pension liability (Note 7)	971,973
Asset retirement obligation (Note 13)	463,097
Environmental remediation (Note 12)	3,852,064
	<hr/>
Total Noncurrent Liabilities	10,582,134

TOTAL LIABILITIES

\$ 18,964,355

DEFERRED INFLOWS OF RESOURCES

Bond premiums	201,241
Deferred inflows – pensions (Note 7)	555,896
	<hr/>

TOTAL DEFERRED INFLOWS OF RESOURCES

\$ 757,137

NET POSITION

Net investment in capital assets	50,796,945
Unrestricted	1,217,247
	<hr/>

TOTAL NET POSITION

\$ 52,014,192

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

PORT OF ANACORTES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2019

OPERATING REVENUES

Airport	\$ 820,171
Marina	9,176,568
Marine Terminal	6,630,622
Properties	1,576,577
Total Operating Revenues	<u>18,203,938</u>

OPERATING EXPENSES

General operations	9,134,680
Facilities	1,998,339
General and administrative	3,158,181
Depreciation	2,514,362
Total Operating Expenses	<u>16,805,562</u>

NET OPERATING INCOME

1,398,376

NON-OPERATING REVENUES

Taxes levied	1,552,517
Investment income	248,409
Miscellaneous taxes	16,823
Other income	68,907
Total Non-Operating Revenues	<u>1,886,656</u>

NON-OPERATING EXPENSES

Interest expense	(315,206)
Loss on disposal of assets	(526,858)
Total Non-Operating Expenses	<u>(842,064)</u>

ENVIRONMENTAL ACTIVITY

Environmental recoveries	372,467
Environmental remediation expense	(502,622)
Environmental remediation costs previously accrued	4,785,509
Total Environmental Activity	<u>4,655,354</u>

INCREASE IN NET POSITION

7,098,322

NET POSITION – BEGINNING OF PERIOD

45,110,312

CHANGE IN ACCOUNTING PRINCIPLE (NOTE 15)

(194,442)

NET POSITION – END OF PERIOD

\$ 52,014,192

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

PORT OF ANACORTES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 17,420,681
Payments to suppliers	(9,864,112)
Payments to employees	(4,352,949)
Operating grants received	318,899
Net cash provided by operating activities	<u>3,522,519</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Payments for environmental expenses	(476,673)
Receipts from environmental recoveries	378,916
Net cash provided by other non-operating income	21,720
Net cash provided by noncapital financing activities	<u>(76,037)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on general obligation bonds	(1,170,000)
Interest paid on general obligation bonds	(349,890)
Purchases of capital assets	(6,853,307)
Proceeds from Build America Bonds subsidy	73,175
Cash received from property taxes	1,547,452
Net cash (used) by capital and related financing activities	<u>(6,752,570)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	903,713
Net interest earned on investments	264,513
Net cash provided by investing activities	<u>1,168,226</u>

Net decrease in cash and cash equivalents	<u><u>(2,137,862)</u></u>
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CASH AND CASH EQUIVALENTS

Beginning of year	11,539,425
End of year	9,401,563
(Decrease) in cash and cash equivalents	<u><u>(2,137,862)</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Net operating income	<u>1,398,376</u>
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	2,514,362
(Increase) in accounts receivable	(464,358)
(Increase) in inventory and prepaid expenses	(56,646)
Increase in accounts payable & other current liabilities	130,785
Total adjustments	<u>2,124,143</u>
Net cash provided by operating activities	<u><u>\$ 3,522,519</u></u>

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

PORT OF ANACORTES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Anacortes was incorporated in 1926 and operates under the laws of the state of Washington applicable to a public port district as a municipal corporation under the provisions of Chapter 53 of the *Revised Code of Washington* (RCW). The financial statements of the Port of Anacortes have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

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

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

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

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

The Commission governs the IDC. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements and there were no tax-exempt non-recourse revenue bonds outstanding as of December 31, 2019.

B. Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting, and Reporting System for GAAP* in the State of Washington. Funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position (or balance sheets). Their reported fund position is

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

segregated into net investment in capital assets, restricted, and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

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

C. Use of Estimates

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

D. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2019, cash on hand and short-term residual investments of surplus cash were \$9,401,563. This amount is classified on the Statement of Net Position as cash and cash equivalents.

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

2. Investments – See Note 2, Deposits and Investments

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Note 3, Property Taxes). Interest receivable consists of amounts earned on investments at the end of the year. Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

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

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established for these items. Allowance for uncollectible amounts consists of the estimated amounts of customer accounts, notes and contracts that will never be collected. Estimated uncollectible amounts for trade receivables are \$15,982 as of December 31, 2019.

4. Due from Others

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

5. Fuel Inventory

Reported fuel inventory is non-ethanol gasoline, diesel fuel, aviation gasoline, and jet fuel held at the Port's marina fuel dock and airport fuel island as of December 31, 2019. Inventory has been valued based on the First In First Out (FIFO) method of accounting, which approximates fair market value.

6. Prepaid Expenses

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

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

8. Compensated Absences

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

Vacation pay, which may be accumulated up to a 24-month accrual, is payable upon separation of employment or death. Sick leave may accumulate up to 960 hours. Upon separation without cause and a minimum of ten years of service, employees are paid for accumulated sick leave at 50% of their final balance, but not more than 480 hours. At December 31, 2019, the recorded liability for unpaid vacation and sick leave was \$308,853 and is included in the Statement of Net Position under Accrued Liabilities.

9. Unearned Income

At December 31, 2019, the Port held \$214,703 in Unearned Income. This amount represents prepayment of rent and will be recognized as revenue in 2020.

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

11. Pensions

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

12. Deferred Inflows/Outflows of Resources

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the Port reports separate sections for these items on the Statement of Net Position. Deferred outflows represent a consumption of net assets that applies to a future period(s); conversely, deferred inflows represent an acquisition of net assets that applies to a future period(s). As of December 31, 2019, the Port recorded deferred outflows of resources and deferred inflows of resources of \$688,066 and \$757,137, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Treasury Function

At the direction of the Port Auditor, the Skagit County Treasurer (the Treasurer) is responsible for execution and administration of the Port's deposit and investment accounts, based on the Port's management and investment decisions. A Commission resolution provides general guidance and policy direction for all investments of Port funds. This resolution, in combination with state statutes and the Treasurer's investment policy, serves as the template for the investment of all Port funds.

B. Deposits

The Port has established direct banking services with Banner Bank. The Port also maintains deposits in the Local Government Investment Pool (LGIP) managed by the Washington State Treasurer. The Port's bank deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The Port has not experienced any losses in its deposit accounts. All bank deposits as well as deposits in the LGIP are considered to be cash equivalents and are reported at cost.

C. Investments

Investments, stated at fair value, are based on quoted market prices in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in the fair-value of an investment is recognized as an increase or decrease to the investment asset and investment income. As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of state and local government, or certificates of deposit with PDPC qualified banks and savings and loan institutions.

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

NOTE 2 - DEPOSITS AND INVESTMENTS – continued

Investments Measured at Amortized Cost

As of December 31, 2019, the Port had the following investments measured at amortized cost:

	Amortized Cost			
Investment Type	Maturities	Port's Own Investment	Investments Held by Port as Agent for Others	Total
Local Government Investment Pool	Less than 1 year	\$5,056,935	\$ -	\$5,056,935
Money Market Funds	Less than 1 year	\$4,010,394	\$ -	\$4,010,394
Total		\$9,067,329	\$ -	\$9,067,329

Investments Measured at Fair Value

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

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

As of December 31, 2019, the Port had no investments measured at fair value.

Interest rate risk

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

Credit risk

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

Custodial Risk

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities. The Port conducts all investment transactions, except the LGIP, on a delivery-verses-payment (DVP) basis with all securities purchased through broker relationships and delivered to Wells Fargo, N.A. who serves as the Port's third party custodian.

NOTE 2 - DEPOSITS AND INVESTMENTS – continued

Investments in Local Government Investment Pool (LGIP)

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

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

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

NOTE 3 - PROPERTY TAXES

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

Property Tax Calendar:

January 1Taxes are levied and become an enforceable lien against properties

February 14Tax bills are mailed

April 30.....First of two equal installment payments is due

May 31Assessed value of property established for next year's levy at 100% of market value

October 31.....Second installment is due

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

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general governmental services. The 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 \$0.2173 per \$1,000 on an assessed valuation of \$7,144,231,498 for a total regular levy of \$1,552,524. For 2019, the Port collected 99.27% of ad valorem taxes levied.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

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

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION – continued

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

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

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

	Beginning Balance 12/31/2018	Increases	Decreases	Ending Balance 12/31/2019
Capital assets, not being depreciated:				
Land	19,664,530	2,889,252	(225,974)	22,327,808
Construction in progress	1,280,421	1,930,170	(2,063,065)	1,147,526
Total capital assets, not being depreciated:	20,944,951	4,819,422	(2,289,039)	23,475,334
Capital assets being depreciated:				
Facilities	69,405,283	3,931,972	(834,414)	72,502,841
Machinery and Equipment	4,735,729	221,376	(58,584)	4,898,521
Total capital assets being depreciated	74,141,012	4,153,348	(892,998)	77,401,362
Less accumulated depreciation for:				
Facilities	38,153,352	2,132,097	(411,755)	39,873,694
Machinery and Equipment	3,293,783	382,265	(58,584)	3,617,464
Total accumulated depreciation	41,447,135	2,514,362	(470,339)	43,491,158
Total capital assets, being depreciated, net:	\$ 32,693,877	\$ 1,638,986	\$ (422,659)	\$ 33,910,204

NOTE 5 – CONSTRUCTION COMMITMENTS

The Port has active construction projects as of December 31, 2019. These projects include:

PROJECT	AMOUNT SPENT TO DATE
A Dock Demo & Replacement	\$ 480,601
P/Q Dock Extension	17,848
North and West Basin Redevelopment	457,347
Curtis Wharf Steel Piling Cathodic Protection	127,051
Pier 1 Piling Repair	33,944
Marina Fiber Upgrade	15,998
Marina Q Dock Rehab/Repair	13,515
Marina Lighting Upgrade	647
Rockwell Site Development	575
Total Construction In Progress	\$ 1,147,526

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	\$ (971,973)
Pension assets	\$ -
Deferred outflows of resources	\$ 315,196
Deferred inflows of resources	\$ (555,896)
Pension expense/expenditures	\$ 146,681

State Sponsored Pension Plans

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

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

NOTE 7 - PENSION PLANS – *continued*

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%
June – December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

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

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

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

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

NOTE 7 - PENSION PLANS – continued

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	Employee*
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%
June – 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%

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The Port's actual PERS plan contributions were \$136,124 to PERS Plan 1 and \$210,329 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.

NOTE 7 - PENSION PLANS – *continued*

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. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

NOTE 7 - PENSION PLANS – continued**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 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 Net Pension Liability

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 917,662	\$ 732,771	\$ 572,353
PERS 2/3	\$ 1,834,586	\$ 239,202	\$ (1,069,915)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the Port reported a total pension liability of \$971,973 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 732,771
PERS 2/3	\$ 239,202

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.018114%	0.019056%	0.000942%
PERS 2/3	0.023156%	0.024626%	0.000147%

NOTE 7 - PENSION PLANS – continued

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

The collective net pension liability was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability 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	\$ 77,241
PERS 2/3	\$ 69,440

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 Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (48,955)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 66,015	\$ -
TOTAL	\$ 66,015	\$ (48,955)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 68,530	\$ (51,426)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (348,181)
Changes of assumptions	\$ 6,125	\$ (100,361)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 66,969	\$ (6,973)
Contributions subsequent to the measurement date	\$ 107,557	\$ -
TOTAL	\$ 249,181	\$ (506,941)

NOTE 7 - PENSION PLANS – continued

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 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 Plan 1
2020	\$ (10,807)
2021	\$ (25,599)
2022	\$ (9,135)
2023	\$ (3,414)
TOTAL	\$ (48,955)

Year ended December 31:	PERS Plan 2/3
2020	\$ (93,548)
2021	\$ (167,927)
2022	\$ (68,479)
2023	\$ (31,642)
2024	\$ (12,605)
Thereafter	\$ 8,884
TOTAL	\$ (365,317)

NOTE 8 - RISK MANAGEMENT

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

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

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

Commercial property replacement cost coverage with a total insured value of \$130.1 million with a deductible of \$10,000 is in effect. In addition, the Port maintains standard business automobile, construction, and boiler and machinery coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - RISK MANAGEMENT— continued

The Port provides medical, vision, dental, life, and long-term disability coverage for full-time employees, commissioners, and their eligible dependents through standard plans. The Port does not administer any of these plans, and only the dental plan is self-insured. The 2019 dental plan had an average of 94 lives on the plan. A monthly administrative fee per employee is charged, along with actual claims. Fixed costs were \$4,457, and the claims paid were \$49,346. Total dental costs were \$53,803 in 2019. The required eight weeks of reserve is calculated to be \$7,382 and is included in the Port's Accrued Liabilities on the Statement of Net Position.

NOTE 9 - LONG-TERM LIABILITIES**A. Long-Term Debt**

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

The general obligation bonds currently outstanding are as follows:

Issue Name and Purpose	Original Amount	Maturity Range	Interest Rate	Amount Outstanding
Limited Tax General Obligation Bonds, 2010 Purpose: Construction	4,500,000	9/1/2019 - 9/1/2024	4.387% - 4.487%	3,810,000
Limited Tax General Obligation Refunding Bonds, 2012 Purpose: Refunding	5,075,000	9/1/2014 - 9/1/2024	2.75% - 4.00%	2,695,000
Total General Obligation Bonds				\$ 6,505,000

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

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>
2020	1,210,000	300,420
2021	1,255,000	248,538
2022	1,300,000	189,613
2023	1,350,000	128,592
2024	1,390,000	65,215
Total	\$ 6,505,000	\$ 932,378

There were no outstanding revenue bonds or bond reserves as of December 31, 2019.

B. Net Pension Liability

The net pension liability totaled \$971,973 as of December 31, 2019. See Note 7 for further discussion of the net pension liability and related deferred outflows and inflows of resources.

NOTE 9 - LONG-TERM LIABILITIES – continued**C. Asset Retirement Obligation**

The asset retirement obligation totaled \$463,097 as of December 31, 2019. See Note 13 for further discussion of the asset retirement obligation and related deferred outflows of resources.

D. Environmental Remediation Liability

Current and long-term environmental remediation liability totaled \$8,098,775 as of December 31, 2019. See Note 12 for further discussion of pollution remediation obligations.

E. Changes in Long-Term Liabilities

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

	Beginning Balance 12/31/2018	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
G.O. bonds payable	\$ 7,675,000	-	\$ (1,170,000)	\$ 6,505,000	\$ 1,210,000
Net pension liability	1,204,345	-	(232,372)	971,973	-
Asset retirement obligation	-	463,097	-	463,097	-
Environmental remediation	12,850,244	-	(4,751,469)	8,098,775	4,246,711
Total long-term liabilities	\$ 21,729,589	\$ 463,097	\$ (6,153,841)	\$ 16,038,845	\$ 5,456,711

NOTE 10 - LEASES

The Port is committed under a lease agreement for the lease of several pieces of office equipment. The lease is considered to be an operating lease for accounting purposes. Total cost for the leases was \$17,380 for the year ended December 31, 2019.

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

Year ended December 31:	Lease Payments
2020	\$ 14,897
2021	\$ 14,897
2022	\$ 1,241
TOTAL	\$ 31,035

NOTE 11 - RESTRICTED COMPONENT OF NET POSITION

Net Position is segregated into three components: invested in capital assets, restricted, and unrestricted. Items are categorized as restricted when constraints are externally imposed on their use by contract or agreement, or imposed by law through constitutional provisions or enabling legislation. As of December 31, 2019, the Port's net position did not include a restricted component as no such constraints were in place.

NOTE 12 - POLLUTION REMEDIATION OBLIGATIONS

The Port has identified six contaminated sites on various Port properties that require investigation, and potential remediation, in order to comply with state environmental laws and regulations. As of December 31, 2019, remediation activities at three of these sites is substantially complete. Although the Port may not bear ultimate liability for the contamination at the remaining sites, the Port is presumptively liable as the property owner.

The Port's estimate of its pollution remediation obligations is analyzed by independent environmental consultants annually (using the expected cash flow technique) and has been estimated at \$11,217,341 as of December 31, 2019. The Port's historical insurance policy provides unlimited defense and indemnity coverage of \$3.5 million, of which \$3,118,566 remains. This policy constitutes an unrealizable recovery, which reduces the liability as presented in current and long-term liabilities, totaling \$8,098,775. The Port has and will continue to actively pursue cost sharing and cost recovery agreements with current and former tenants, former site operators, the Port's former insurance carriers, the tenants' former insurance carriers and granting agencies. The Port has been extremely successful in negotiating these agreements on the three completed sites, and in partnership with the other liable parties and the Washington State Department of Ecology (DOE), has expended minimal out of pocket costs relative to total remediation expenses. As of December 31, 2019, the Port has estimated realizable recoveries from these agreements (not including DOE grant funds) totaling \$2,061,208. The Port estimates \$5,486,871 in future expected recoveries that are not yet included on the Statement of Net Position as of December 31, 2019. These amounts consist of estimated future grant reimbursements expected from DOE, and will be recognized as a receivable as the work is performed.

The Port liability will change over time due to changes in cost estimates, changes in technology, and changes in governing laws and regulations. In 2019, the Port recognized a decrease in the accrued net liability in the amount of \$4,785,509, primarily as a result of an interim action signed with DOE on the Port's Quiet Cove site. During the fiscal year 2019, the Port recorded recoveries in the amount of \$372,467, and expended \$502,622 in cleanup activities.

NOTE 13 – 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.

NOTE 13 – UNDERGROUND STORAGE TANK RETIREMENT OBLIGATION – *continued*

The Port owns and operates two fuel facilities, a fuel island at its airport and a fuel dock at its marina. The fuel dispensers at the airport fuel island are supplied by two 12,000 gallon, double-walled, dielectric-coated, underground storage tanks that were installed in 1991. The marina fuel dock is supplied by two 15,000 gallon, double-walled, fiberglass underground storage tanks that were installed in 2008. The Washington State Department of Ecology (DOE) monitors and regulates underground storage tanks, including requirements for permanent closure, pursuant Washington Administrative Code (WAC) Chapter 173-360A.

Using DOE's permanent closure requirements, internal project management staff prepared the Port's initial estimate of its underground storage tank retirement obligation, utilizing the expected cash flow technique for a series of associated tasks. Key assumptions were no soil contamination, complete site surface pavement restoration, and decommissioning by demolition and disposal. In addition to construction costs, permitting, design and engineering, construction oversight and project administration, and a 10% construction contingency were considered. An independent order of magnitude cost report prepared by DH Environmental, Inc. in October 2019, for decommissioning one 20,000-gallon gasoline underground storage tank for the Port of Seattle, provided a reasonableness test for the internal estimate. As of December 31, 2019, the asset retirement obligation for the Port's four underground storage tanks was \$463,097. 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.

Underground storage tanks typically have estimated useful lives ranging from 30-40 years. The Port's airport fuel tanks were installed in 1991, but underwent significant cathodic protection repairs in 2019. The Port estimates this work extended the useful lives of those tanks 20 years. The marina fuel tanks were installed in 2008, and given an estimated useful life at acquisition, of 30 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 14 - CONTINGENCIES AND LITIGATION

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

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

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

NOTE 15 – ACCOUNTING AND REPORTING CHANGES

In 2019, the Port implemented 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. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. The implementation required recognition of an asset retirement obligation retroactively, causing an adjustment to the Port's beginning net position. The total adjustment is \$194,442, which restated the December 31, 2018 Statement of Net Position from \$45,110,312 to \$44,915,870.

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

NOTE 16 – JOINT VENTURES

The Port participates in a single joint venture with Skagit County and other local governments in the Skagit Council of Governments (SCOG), a regional transportation-planning agency formed in 1967. The purpose of SCOG is to provide staff support for regional transportation planning and economic development activities in Skagit County.

A Board of Directors, composed of elected officials representing the cities of: Anacortes, Burlington, Mount Vernon, and Sedro Woolley; the towns of: Concrete, Hamilton, LaConner, and Lyman; Skagit County, Skagit County Public Utility District, the Port of Anacortes, the Port of Skagit County, Skagit Transit, Swinomish Tribal Community and the Samish Indian Nation, governs SCOG. Annual dues are assessed according to a per capita ratio or through an equitable assessment established by the Board of Directors. In 2019, the Port was assessed annual dues of \$9,923.

Pursuant the SCOG Governance Agreement, approved by the Board of Directors in May 2014, SCOG shall have perpetual existence, until dissolved by 1) a vote of 2/3 of the voting members, or 2) withdrawal of such members so that the ratification thresholds as required by State or Federal law are no longer met. Upon dissolution, the debts, liabilities, and obligations shall be paid from SCOG's assets. The remaining net assets shall be distributed to member agencies in proportion to their respective contributions to SCOG.

The Port's net investment in SCOG as of December 31, 2019 has not been communicated. Furthermore, based on the SCOG's most recent audited financial statements available on the State Auditor's website, the Port believes the investment to be immaterial to the financial statements.

NOTE 17 – SUBSEQUENT EVENTS

In January 2020, the U.S. Department of Health and Human Services declared a public health emergency for a new strain of coronavirus, COVID-19, a respiratory disease that can result in serious illness or death. In February 2020, Washington State's Governor declared a state of emergency in response to the spread of this deadly new virus. In March 2020, the World Health Organization declared COVID-19 as a global pandemic. In the weeks following the Governor's 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 all non-essential businesses, and mandating that people stay home and stay healthy. On March 19, 2020, the Port Commission passed Resolution 1361, delegating to the Port's Executive Director, explicit and enhanced authority to respond to COVID-19.

The Port's primary focus during this uncertain time has been ensuring the safety and health of its employees and providing essential services while continuing to be an economic driver in the community. The Port has taken various measures to comply with the Governor's mandates, including the closure of Port offices to the public, implementing remote work arrangements as appropriate and adopting personnel policies for those who must report to work to provide essential services. While a formal spending freeze has not been enacted, any new hiring, travel, and non-essential purchases have been temporarily suspended as staff analyze the potential impacts this situation may have to the Port's revenue streams.

Due to the closures mandated by the Governor, many businesses in the community are experiencing negative financial impacts. Many of the Port's business tenants have made requests for rent relief. On March 26, 2020, the Port Commission approved a temporary rent relief program for the Port's business tenants. Under this program, eligible tenants and licensees can defer up to three months' of rent payments to December 31, 2020 with no late fees or penalty charges. While this will affect the timing of the Port's cash flows, this program is not anticipated to negatively impact the Port's overall financial results for 2020. However, other revenue streams, primarily those tied to recreation, such as guest moorage, may be affected depending on the length of time the current measures are in place. As such, the full extent of the financial impact to the Port is unknown at this time.

The Port continues to monitor the situation closely and will make adjustments as required to comply with recommendations of the Centers for Disease Control, the Skagit County Health Department, and the Washington State Governor's office.

Introduction

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

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.016440%	0.017568%	0.018188%	0.018114%	0.019056%					
Employer's proportionate share of the net pension liability	\$859,965	\$943,484	\$863,035	\$808,977	\$732,771					
TOTAL	\$859,965	\$943,484	\$863,035	\$808,977	\$732,771					
Employer's covered employee payroll	\$1,884,289	\$2,114,171	\$2,291,088	\$2,411,395	\$2,677,419					
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.64%	44.63%	37.67%	33.55%	27.37%					
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%					

Notes to Schedule:

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

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.021235%	0.022487%	0.023390%	0.023156%	0.024626%					
Employer's proportionate share of the net pension liability	\$758,739	\$1,132,203	\$812,691	\$395,368	\$239,202					
TOTAL	\$758,739	\$1,132,203	\$812,691	\$395,368	\$239,202					
Employer's covered employee payroll	\$1,884,289	\$2,114,171	\$2,291,088	\$2,411,395	\$2,677,419					
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	53.55%	35.47%	16.40%	8.93%					
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%					

Notes to Schedule:

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

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$84,102	\$105,734	\$115,883	\$128,496	\$136,124					
Contributions in relation to the statutorily or contractually required contributions	\$(84,102)	\$(105,734)	\$(115,883)	\$(128,496)	\$(136,124)					
Contribution deficiency (excess)	-	-	-	-	-					
Covered employer payroll	\$1,940,212	\$2,216,729	\$2,372,021	\$2,537,780	\$2,734,033					
Contributions as a percentage of covered employee payroll	4.33%	4.77%	4.89%	5.06%	4.98%					

Notes to Schedule:

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

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$107,712	\$138,097	\$160,584	\$190,568	\$210,329					
Contributions in relation to the statutorily or contractually required contributions	\$(107,712)	\$(138,097)	\$(160,584)	\$(190,568)	\$(210,329)					
Contribution deficiency (excess)	-	-	-	-	-					
Covered employer payroll	\$1,940,212	\$2,216,729	\$2,372,021	\$2,537,780	\$2,734,033					
Contributions as a percentage of covered employee payroll	5.55%	6.23%	6.77%	7.51%	7.69%					

Notes to Schedule:

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov