



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Port of Pend Oreille
(Pend Oreille Valley Railroad)

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

Published August 31, 2020

Report No. 1026813





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

August 31, 2020

Board of Commissioners
Pend Oreille Valley Railroad
Usk, Washington

Report on Financial Statements

Please find attached our report on the Pend Oreille Valley Railroad's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	56

**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**

**Pend Oreille Valley Railroad
January 1, 2018 through December 31, 2019**

Board of Commissioners
Pend Oreille Valley Railroad
Usk, 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 Pend Oreille Valley Railroad, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated August 4, 2020.

As discussed in Note 9 to the 2019 financial statements, in February 2020, a state of emergency was declared and a major shipper declared bankruptcy that could have a negative financial effect on the Port.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy
State Auditor
Olympia, WA

August 4, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pend Oreille Valley Railroad January 1, 2018 through December 31, 2019

Board of Commissioners
Pend Oreille Valley Railroad
Usk, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Pend Oreille Valley Railroad, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

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

Matters of Emphasis

As discussed in Note 9 to the 2019 financial statements, in February 2020, a state of emergency was declared and a major shipper declared bankruptcy that could have a negative financial effect on the Port. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 August 4, 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

August 4, 2020

FINANCIAL SECTION

Pend Oreille Valley Railroad January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Net Position – 2018

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

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

Statement of Cash Flows – 2019

Statement of Cash Flows – 2018

Notes to the Financial Statements – 2019

Notes to the Financial Statements – 2018

2019 Management's Discussion and Analysis

Our discussion and analysis of the Port of Pend Oreille's financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2019.

The Port of Pend Oreille is a Special Purpose Municipal Government. Ports exist to build infrastructure and promote economic development within their districts. Ports are often, though not always, involved in transportation activities. The Port of Pend Oreille operates a Railroad for shipping and receiving operations.

The Port of Pend Oreille was created in 1979 by a vote of the citizens of the Port District. The district encompasses all of Pend Oreille County, Washington. The Port is a special purpose government entity that owns land and operates the Pend Oreille Valley Railroad. The Port's primary mission is to operate the Pend Oreille Valley Railroad.

Three elected Port Commissioners administer the Port. In accordance with the laws of Washington the Commissioners have appointed an Administrative Team which consists of a Manager, Roadmaster, and Chief Mechanical Officer to manage all operations and finances.

The Port owns 61 miles of track in Washington, leases 24 miles of track in Idaho, on which it operates the Pend Oreille Valley Railroad. The Pend Oreille Valley Railroad currently has many customers. The Pend Oreille Valley Railroad interchanges with the Burlington Northern Santa Fe Railway Company at Sandpoint, Idaho to ship and receive cars from the Burlington Northern Santa Fe and Union Pacific Railroads.

Ports do their accounting and financial reporting for their activities very much like a business. The Port of Pend Oreille does not levy nor collect any real or personal property taxes.

The Government Accounting Standards Board has prescribed a new method of financial reporting for all government entities. The Port of Pend Oreille continues to use the model of reporting adopted in 2003.

Issues Facing the Port

In line with a weak industrial economy, we will strive to keep our freight revenues up. The increase of cars online will also provide for car repair revenue to remain significant. When shippers decrease their shipments our storage car revenues should increase as more cars are stored and out of service. Our shop revenues continue to increase with the increased capabilities of job performance in the shop due to our past years upgrades. In 2020, we are focusing on increasing our promotion of economic development activities and continually looking for new shipper availability on our line. Currently, there is the outbreak of the coronavirus health concern and its affect on the economy. Although we do not know how the coronavirus will affect us yet, it is certain to make an impact on supply and demand for everyone.

Financial Highlights

- In 2019, the Port's overall business revenues increased \$304,355 or approximately 11.86% over the 2018 business revenue levels.
- The Port's overall operating costs increased in 2019 by \$124,558, or approximately 4.63% over 2018 operating expense levels.
- The Port had an overall Net Operating Income of \$58,684 in 2019.
- The Port's operating revenues were more than budgeted by \$431,613, and the operating expenses were more than budgeted by \$372,929.

Using the Annual Report

This report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows provide information about the activities of the Port as a whole, and present a longer-term view of the Port's finances.

All of the Port's transactions are reported in one fund. The Port does not maintain any trustee or agency funds.

Reporting the Port as a Whole

Understanding the financial trend of the Port begins with understanding the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. Looking at these two reports, you should be able to determine if the Port is financially better this year than it was in the past.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Port's financial activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid by the Port.

These two reports show the Port's net position and the changes in them during 2019. The Port's net position is its assets minus its liabilities. This is one measure of financial position of the Port. Over time, increases or decreases in the Port's net position are a good indicator of whether its financial strength is improving or deteriorating. You need to consider other factors not shown on these two financial reports in order to assess the Port's true financial condition. A change in the condition of the Port's asset base is an important factor when assessing the overall financial condition of the Port.

Fund Financial Statements

When the Port charges someone to use property or Port services, the revenue earned is like businesses revenue. The Statement of Revenues, Expenses, and Changes in Net Position is the Port's fund based financial statement.

Since the Port accounts for all of its transactions in one Proprietary Fund, The Port's fund based financial statement is also its entity-wide governmental financial statement as required by GASB 34-38.

The Port as a Whole

The discussion below explains the Ports overall financial situation for the year ended 12/31/2019.

The Port's total assets increased from approximately \$7.6 million to \$7.8 million since last year. Our analysis below focuses on the change in total assets.

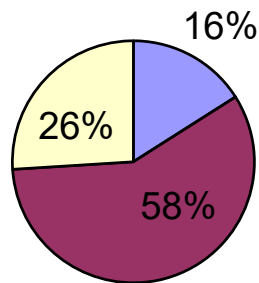
Change in Total Assets (in Millions of Dollars)

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Current Assets	3.0	3.6	4.0
Total Restricted Assets	.2	.2	.1
Total Net Capital Assets	<u>3.9</u>	<u>3.8</u>	<u>3.7</u>
Total Assets	<u>7.1</u>	<u>7.6</u>	<u>7.8</u>

The total current assets increased due to an increase in Accounts Receivable in 2019. The tax credit rebate was received in 2020 and accrued back to 2019 creating the increased Accounts Receivable. There was a decrease in capital assets due to the increase in accumulated depreciation on assets in 2019.

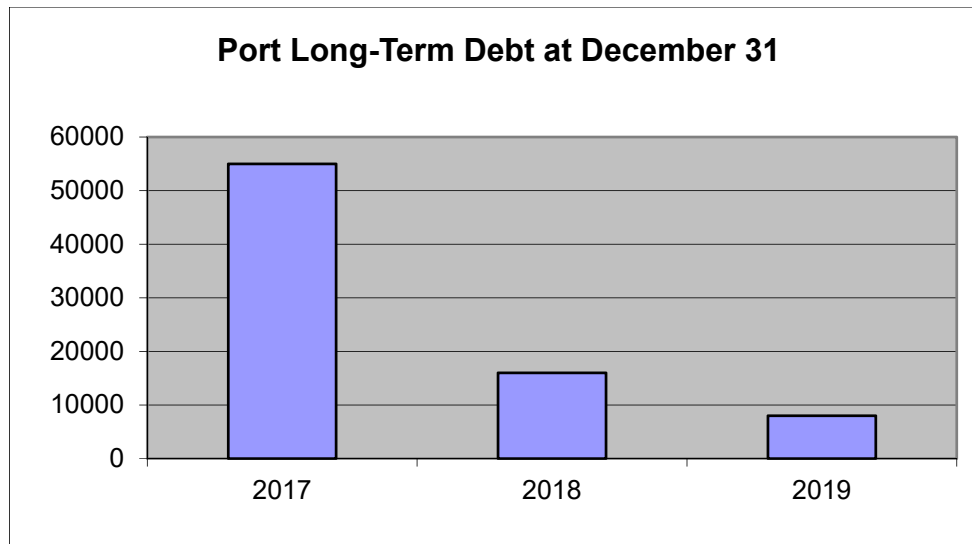
The Port maintained a capital asset base of \$3,675,755 in 2019, and a capital asset base in 2018 of \$3,819,210. The Port expensed \$143,455 in depreciation charges in 2019. When the Port invests less than that amount in new capital assets in a year, then the book value of its asset base decreases.

Port Capital Asset Classifications 12/31/2019



- Land, Land Rights, Roadbed, & CIP - 16%
- Buildings, Structures, & Improvements - 58%
- Machinery & Equipment - 26%

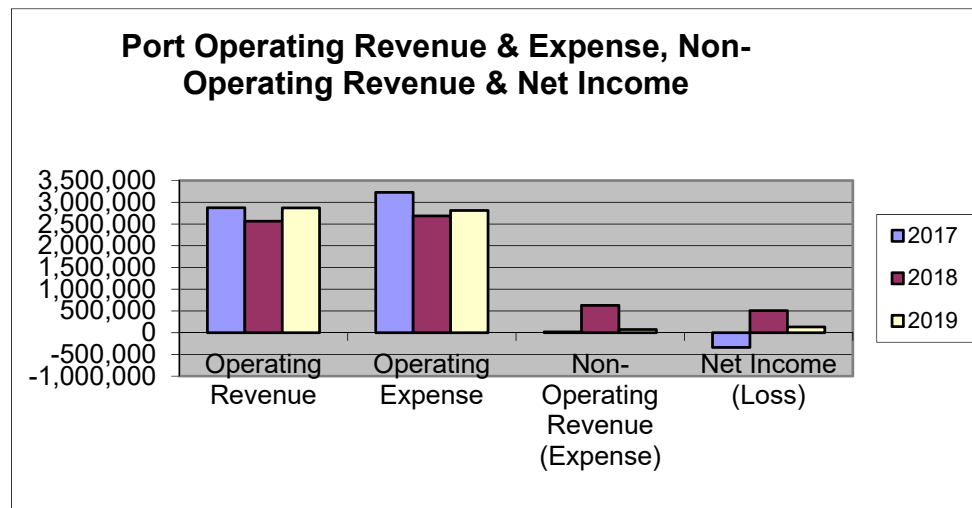
The Port's current liabilities as of 12/31/2019 are debt's that the Port will repay in 2020. The total current liabilities increased in 2019 to \$295,243 from \$208,464 in 2018 due to an increase in Accounts Payable and Accrued Expenses. The Port's long term liabilities decreased in 2019 due to the bond debt obligations decreasing each year. The Revenue Bonds outstanding at 12/31/2019 amounted to \$8,000, a decrease of \$8,000 from \$16,000 in 2018.



The Port's Net Investment in Capital Assets, decreased by \$143,455 from \$3,819,210 in 2018 to \$3,675,755 in 2019. The Unrestricted Net Position increased by \$277,010, from \$3,565,835 in 2018 to \$3,842,845 in 2019. An increase in assets and liabilities in association with the investment in capital assets has resulted consequently in an increase in the Port's overall financial position.

Our further analysis shows our business activities. The Port's total operating revenues increased by approximately \$304,355 from \$2,564,511 in 2018 to \$2,868,866 in 2019, and the total cost of operations also increased by approximately \$124,558 from \$2,685,624 in 2018 to \$2,810,182 in 2019. Thus, creating a net operating income of \$58,684 for 2019 compared to a net operating loss of \$121,113 for 2018. The net operating income is a direct result of a larger increase in Revenues over Expenses in 2019.

Non-operating revenues decreased due to a decrease in Grant Revenue. The Grant Revenue Received/Expended in 2019, in the amount of \$2,698, is a direct result of a Grant project in 2018 that was completed in 2019. The majority of this project was completed in 2018. There was an increase in Interest Income from \$59,630 in 2018 to \$84,338 in 2019 due to an increase in interest rates and Investments. Non-operating expenses show a decrease in interest expense on revenue bonds. Interest expense on revenue bonds decreased from \$3,963 in 2018 to \$2,088 in 2019. Other non-operating expense was recorded for election expense in the amount of \$7,379 in 2019.



	2017	2018	2019
Operating Revenue	2,872,104	2,564,511	2,868,866
Operating Expense	3,226,303	2,685,624	2,810,182
Non-Operating Revenue (Expense)	16,669	627,749	74,872
Net Income (Loss)	-337,531	506,637	133,555

Overall, the Port's balance of net position at the beginning of the year was \$7,385,045 and increased by \$133,555 to arrive at the ending balance in net position of \$7,518,600 at the end of 2019.

Contacting the Port's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Kelly Driver, Port Manager, or Susan Bluff, Port Auditor, at 1981 Black Road, Usk, WA 99180 or by phone at (509) 445-1090.

2018 Management's Discussion and Analysis

Our discussion and analysis of the Port of Pend Oreille's financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2018.

The Port of Pend Oreille is a Special Purpose Municipal Government. Ports exist to build infrastructure and promote economic development within their districts. Ports are often, though not always, involved in transportation activities. The Port of Pend Oreille operates a Railroad for shipping and receiving operations.

The Port of Pend Oreille was created in 1979 by a vote of the citizens of the Port District. The district encompasses all of Pend Oreille County, Washington. The Port is a special purpose government entity that owns land and operates the Pend Oreille Valley Railroad. The Port's primary mission is to operate the Pend Oreille Valley Railroad.

Three elected Port Commissioners administer the Port. In accordance with the laws of Washington the Commissioners have appointed an Administrative Team which consists of a Manager, Roadmaster, and Chief Mechanical Officer to manage all operations and finances.

The Port owns 61 miles of track in Washington, leases 24 miles of track in Idaho, on which it operates the Pend Oreille Valley Railroad. The Pend Oreille Valley Railroad currently has many customers. The Pend Oreille Valley Railroad interchanges with the Burlington Northern Santa Fe Railway Company at Sandpoint, Idaho to ship and receive cars from the Burlington Northern Santa Fe and Union Pacific Railroads.

Ports do their accounting and financial reporting for their activities very much like a business. The Port of Pend Oreille does not levy nor collect any real or personal property taxes.

The Government Accounting Standards Board has prescribed a new method of financial reporting for all government entities. The Port of Pend Oreille continues to use the model of reporting adopted in 2003.

Issues Facing the Port

Freight revenues are increasing with more shipments going out. The increase of cars online also provides for car repairs revenue to remain significant. With the increase in shipping all storage cars have been shipped out, thus losing our storage cars revenue. Our shop building addition of the blast booth is completed and we are hopeful that it will increase the job performance in the shop. The increase in shop capabilities should provide an increase our shop revenues thus helping us with any fluctuation in freight revenues. We were allotted a state grant in 2017 for some track repairs and will finalize the project into 2019.

Financial Highlights

- In 2018, the Port's overall business revenues decreased \$307,593 or approximately 10.71% under the 2017 business revenue levels.
- The Port's overall operating costs decreased in 2018 by \$540,679, or approximately 16.76% under 2017 operating expense levels.
- The Port had an overall Net Operating Loss of \$121,113 in 2018.
- The Port's operating revenues were more than budgeted by \$322,746, and the operating expenses were more than budgeted by \$443,859.

Using the Annual Report

This report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows provide information about the activities of the Port as a whole, and present a longer-term view of the Port's finances.

All of the Port's transactions are reported in one fund. The Port does not maintain any trustee or agency funds.

Reporting the Port as a Whole

Understanding the financial trend of the Port begins with understanding the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. Looking at these two reports, you should be able to determine if the Port is financially better this year than it was in the past.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Port's financial activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid by the Port.

These two reports show the Port's net position and the changes in them during 2018. The Port's net position is its assets minus its liabilities. This is one measure of financial position of the Port. Over time, increases or decreases in the Port's net position are a good indicator of whether its financial strength is improving or deteriorating. You need to consider other factors not shown on these two financial reports in order to assess the Port's true financial condition. A change in the condition of the Port's asset base is an important factor when assessing the overall financial condition of the Port.

Fund Financial Statements

When the Port charges someone to use property or Port services, the revenue earned is like businesses revenue. The Statement of Revenues, Expenses, and Changes in Net Position is the Port's fund based financial statement.

Since the Port accounts for all of its transactions in one Proprietary Fund, The Port's fund based financial statement is also its entity-wide governmental financial statement as required by GASB 34-38.

The Port as a Whole

The discussion below explains the Ports overall financial situation for the year ended 12/31/2018.

The Port's total assets increased from approximately \$7.1 million to \$7.6 million since last year. Our analysis below focuses on the change in total assets.

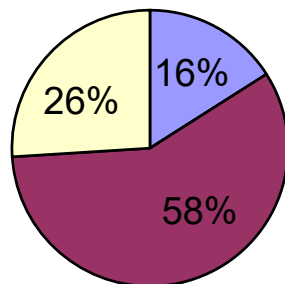
Change in Total Assets (in Millions of Dollars)

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Current Assets	3.7	3.0	3.6
Total Restricted Assets	.2	.2	.2
Total Net Capital Assets	<u>3.6</u>	<u>3.9</u>	<u>3.8</u>
Total Assets	<u>7.5</u>	<u>7.1</u>	<u>7.6</u>

The total current assets increased due to the completion of the grant project and receiving reimbursement in 2018. There was a decrease in capital assets with the sale of equipment in 2018.

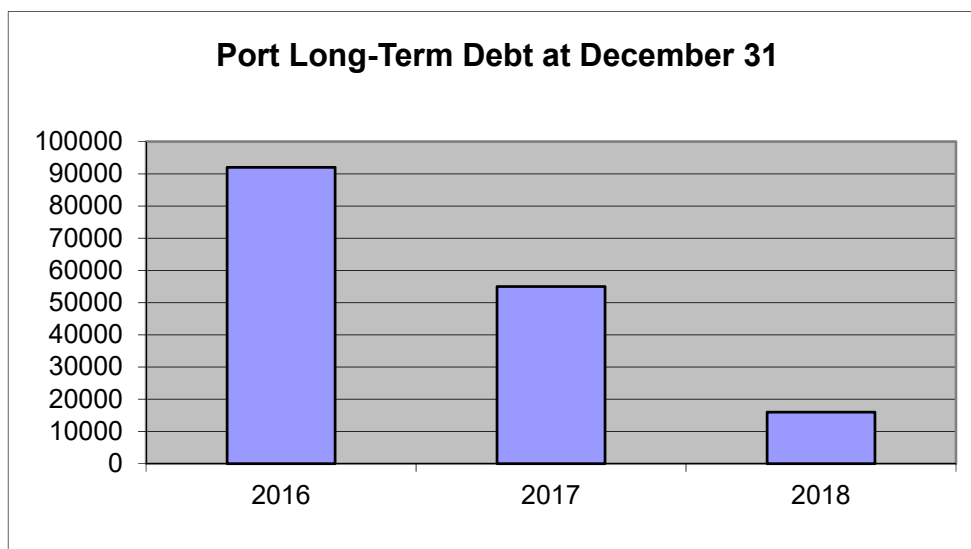
The Port maintained a capital asset base of \$3,819,210 in 2018, and a capital asset base in 2017 of \$3,918,535. The Port expensed \$145,080 in depreciation charges in 2018. When the Port invests less than that amount in new capital assets in a year, then the book value of its asset base decreases.

Port Capital Asset Classifications 12/31/2018



- Land, Land Rights, Roadbed, & CIP - 16%
- Buildings, Structures, & Improvements - 58%
- Machinery & Equipment - 26%

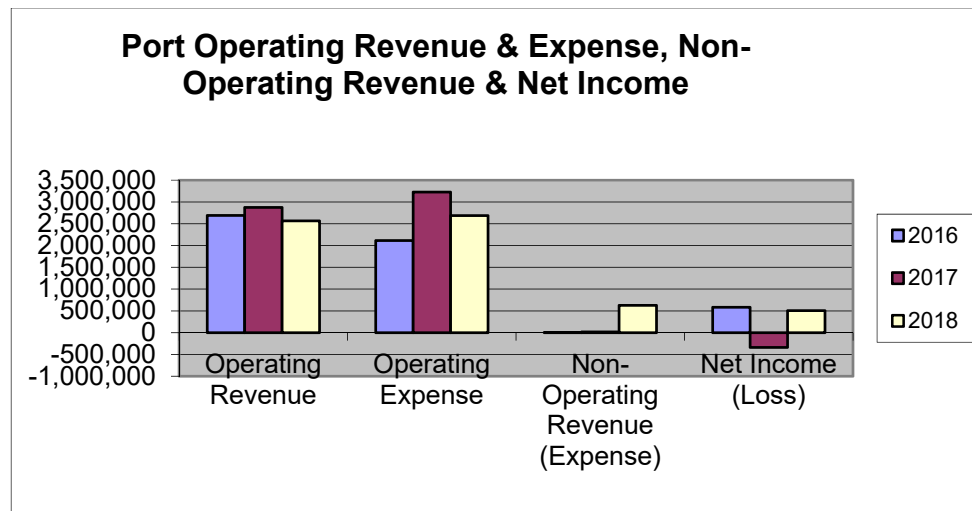
The Port's current liabilities as of 12/31/2018 are debt's that the Port will repay in 2019. The total current liabilities increased in 2018 to \$208,464 from \$206,221 in 2017 due to an increase in Accrued Expenses. The Port's long term liabilities decreased in 2018 due to the bond debt obligations decreasing each year. The Revenue Bonds outstanding at 12/31/2018 amounted to \$16,000, a decrease of \$39,000 from \$55,000 in 2017.



The Port's Net Investment in Capital Assets, decreased by \$99,325 from \$3,918,535 in 2017 to \$3,819,210 in 2018. The Unrestricted Net Position increased by \$605,961, from \$2,959,874 in 2017 to \$3,565,835 in 2018. This increase in assets and decrease in liabilities in association with the investment in capital assets has resulted consequently in an increase in the Port's overall financial position.

Our further analysis shows our business activities. The Port's total operating revenues decreased by approximately \$307,593 from \$2,872,104 in 2017 to \$2,564,511 in 2018, and the total cost of operations also decreased by approximately \$540,679 from \$3,226,303 in 2017 to \$2,685,624 in 2018. Thus, creating a net operating loss of \$121,113 for 2018 compared to a net operating loss of \$354,199 for 2017. The net operating loss is a direct result of expenses incurred for the track repairs competed in 2018 under a State Grant Track Project. The State Grant awarded for the Track Project requires for reimbursement when the project is completed. The Track Project was completed and the grant funds were invoiced for in 2018. Operating revenues decreased with an overall decrease in miscellaneous revenues and storage cars revenues.

Non-operating revenues increased due to an increase in Interest Income and a decrease in Interest Expense. Interest income increased from \$29,330 in 2017 to \$59,630 in 2018 due to an increase in interest rates and Investments. Non-operating expenses show a decrease in interest expense on revenue bonds. Interest expense on revenue bonds decreased from \$5,738 in 2017 to \$3,963 in 2018. In 2018, the Port had also received Grant Revenue for the completion of a track project in the reimbursement amount of \$563,582. Other non-operating revenue was recorded in the sale of equipment in the amount of \$8,500.



	2016	2017	2018
Operating Revenue	2,688,293	2,872,104	2,564,511
Operating Expense	2,112,636	3,226,303	2,685,624
Non-Operating Revenue (Expense)	7,814	16,669	627,749
Net Income (Loss)	583,471	-337,531	506,637

Overall, the Port's balance of net position at the beginning of the year was \$6,878,408 and increased by \$506,637 to arrive at the ending balance in net position of \$7,385,045 at the end of 2018.

Contacting the Port's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Kelly Driver, Port Manager, or Susan Bluff, Port Auditor, at 1981 Black Road, Usk, WA 99180 or by phone at (509) 445-1090.

PORT OF PEND OREILLE	
STATEMENT OF NET POSITION	
As of December 31, 2019	
ASSETS	2019
Current Assets	
Cash and Cash Equivalents (Note C1)	79,261
Investments (Note C2)	3,375,000
Accounts Receivable	550,264
Prepaid Insurance	32,795
Total Current Assets	4,037,320
Noncurrent Assets	
Restricted Assets:	
Cash and Cash Equivalents (Note C1)	200
Investments (Note C2)	108,568
Total Restricted Assets	108,768
Capital Assets not being depreciated:	
Land and Land Rights	407,888
Roadbed	705,281
Total Capital Assets not being depreciated	1,113,170
Capital Assets being depreciated:	
Buildings, Structures, & Improvements	4,106,282
Machinery & Equipment	1,882,116
Less - Accumulated Depreciation	-3,425,813
Total Capital Assets being depreciated	2,562,585
Total Capital Assets (Net)	3,675,755
Total Noncurrent Assets	3,784,523
Total Assets	7,821,843
LIABILITIES	
Current Liabilities	
Accounts Payable	100,359
Leasehold Tax Payable	252
Accrued Expense	186,632
Current Portion of Long-Term Obligations	8,000
Total Current Liabilities	295,243
Noncurrent Liabilities	
Revenue Bonds (Note 7)	8,000
Total Noncurrent Liabilities	8,000
Total Liabilities	303,243
NET POSITION	
Net investment in Capital Assets	3,675,755
Unrestricted	3,842,845
TOTAL NET POSITION	7,518,600

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

PORT OF PEND OREILLE	
STATEMENT OF NET POSITION	
As of December 31, 2018	
ASSETS	2018
Current Assets	
Cash and Cash Equivalents (Note C1)	87,413
Investments (Note C2)	3,430,000
Accounts Receivable	98,133
Prepaid Insurance	27,350
Total Current Assets	3,642,895
Noncurrent Assets	
Restricted Assets:	
Cash and Cash Equivalents (Note C1)	200
Investments (Note C2)	147,194
Total Restricted Assets	147,394
Capital Assets not being depreciated:	
Land and Land Rights	407,888
Roadbed	705,281
Total Capital Assets not being depreciated	1,113,170
Capital Assets being depreciated:	
Buildings, Structures, & Improvements	4,106,282
Machinery & Equipment	1,882,116
Less - Accumulated Depreciation	-3,282,358
Total Capital Assets being depreciated	2,706,040
Total Capital Assets (Net)	3,819,210
Total Noncurrent Assets	3,966,604
Total Assets	7,609,499
LIABILITIES	
Current Liabilities	
Accounts Payable	6,712
Leasehold Tax Payable	57
Accrued Expense	162,696
Current Portion of Long-Term Obligations	39,000
Total Current Liabilities	208,464
Noncurrent Liabilities	
Revenue Bonds (Note 7)	16,000
Total Noncurrent Liabilities	16,000
Total Liabilities	224,464
NET POSITION	
Net investment in Capital Assets	3,819,210
Unrestricted	3,565,835
TOTAL NET POSITION	7,385,045

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

PORT OF PEND OREILLE	
STATEMENT OF REVENUES, EXPENSES	
AND CHANGES IN NET POSITION	
For the Year Ended December 31, 2019	
	2019
OPERATING REVENUES:	
Railroad Operations	1,903,890
Property Lease/Rental Operations	8,765
Other Railroad Operations	956,211
Total Operating Revenues	2,868,866
OPERATING EXPENSES:	
General Operations	1,073,751
Maintenance	800,653
General and Administrative	792,322
Depreciation	143,455
Other: Railroad Operations	
Total Operating Expenses	2,810,182
OPERATING INCOME (LOSS)	58,684
NON-OPERATING REVENUES (EXPENSES):	
Grant Revenue	2,698
Grant Revenue Expended	-2,698
Interest Income (Net)	84,338
Interest Expense	-2,088
Other Non-Operating Revenues (Expenses)	-7,379
Total Non-Operating Revenues (Expenses)	74,872
Income (loss) before other expense	133,555
Increase (decrease) in Net Position	133,555
Net Position - Beginning of Period	7,385,045
Net Position - End of Period	7,518,600

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

PORT OF PEND OREILLE	
STATEMENT OF REVENUES, EXPENSES	
AND CHANGES IN NET POSITION	
For the Year Ended December 31, 2018	
	2018
OPERATING REVENUES:	
Railroad Operations	1,482,917
Property Lease/Rental Operations	8,885
Other Railroad Operations	1,072,710
Total Operating Revenues	2,564,511
OPERATING EXPENSES:	
General Operations	1,279,782
Maintenance	452,501
General and Administrative	808,261
Depreciation	145,080
Other: Railroad Operations	
Total Operating Expenses	2,685,624
OPERATING INCOME (LOSS)	-121,113
NON-OPERATING REVENUES (EXPENSES):	
Grant Revenue	563,582
Interest Income (Net)	59,630
Interest Expense	-3,963
Other Non-Operating Revenues (Expenses)	8,500
Total Non-Operating Revenues (Expenses)	627,749
Income (loss) before other expense	506,637
Increase (decrease) in Net Position	506,637
Net Position - Beginning of Period	6,878,408
Net Position - End of Period	7,385,045

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

PORT OF PEND OREILLE	
STATEMENT OF CASH FLOWS	
For The Year Ended December 31, 2019	
	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments Received from Customers	2,416,734
Payments to Suppliers	-1,567,543
Payments to Employees	-994,219
Net Cash Provided (Used) by Operating Activities	-145,028
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Grants Received	2,698
Grants Expended	-2,698
Net Cash Provided (Used) by Noncapital and Financing Activities	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	0
Principle Paid on Revenue Bonds and Loans	-39,000
Interest Paid on Revenue Bonds/Loans	-2,088
Proceeds from Sale of Plant, Property, and Equipment	0
Capital Contributed in Aid of Construction	0
Net Cash Provided (Used) by Capital and Related Financing Activities	-41,088
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investment Securities	-588,124
Proceeds From Sales and Maturities of Investments	681,750
Interest on Investments (Net)	84,338
Net Cash Provided (Used) by Investing Activities	177,964
Net Increase (Decrease) in Cash and Cash Equivalents	-8,152
Cash and Cash Equivalents at the Beginning of the Year	87,613
Cash and Cash Equivalents at the End of the Year	79,461
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities:	
Operating Income (loss)	58,684
Adjustments to Reconcile Operating Income to Net	
Cash Provided (Used) by Operating Activities:	
Depreciation	143,455
Change in Assets and Liabilities:	
Accounts Receivables, Net	-452,131
Prepaid Expenses	-5,445
Accounts Payables	95,349
Accrued Liabilities	23,102
Accrued Interest	-663
Election Expense	-7,379
Net Cash Provided by Operating Activities	-145,028

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

PORT OF PEND OREILLE	
STATEMENT OF CASH FLOWS	
For The Year Ended December 31, 2018	
	2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments Received from Customers	2,998,617
Payments to Suppliers	-1,535,026
Payments to Employees	-1,007,387
Net Cash Provided (Used) by Operating Activities	456,204
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Grants Received	563,582
Grants Expended	-563,582
Net Cash Provided (Used) by Noncapital and Financing Activities	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	-45,756
Principle Paid on Revenue Bonds and Loans	-37,000
Interest Paid on Revenue Bonds/Loans	-3,963
Proceeds from Sale of Plant, Property, and Equipment	8,500
Capital Contributed in Aid of Construction	0
Net Cash Provided (Used) by Capital and Related Financing Activities	-78,219
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investment Securities	-1,575,495
Proceeds From Sales and Maturities of Investments	591,600
Interest on Investments (Net)	59,630
Net Cash Provided (Used) by Investing Activities	-924,265
Net Increase (Decrease) in Cash and Cash Equivalents	-546,280
Cash and Cash Equivalents at the Beginning of the Year	70,311
Cash and Cash Equivalents at the End of the Year	-475,969
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities:	
Operating Income (loss)	-121,113
Adjustments to Reconcile Operating Income to Net	
Cash Provided (Used) by Operating Activities:	
Depreciation	145,080
Change in Assets and Liabilities:	
Accounts Receivables, Net	434,106
Prepaid Expenses	-2,102
Accounts Payables	-103,482
Accrued Liabilities	104,353
Accrued Interest	-638
Net Cash Provided by Operating Activities.	456,204

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

2019 Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Port of Pend Oreille was created in 1979 and operates under the laws of the State of Washington applicable to Port Districts.

The Port of Pend Oreille is a special purpose government and provides railroad services to the general public and is supported primarily through user charges.

The Port of Pend Oreille is governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port of Pend Oreille does not have any component units.

B. Basis of Accounting and Reporting

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

The Port continues to use the general provisions of the GASB Statement 34 as implemented in fiscal year 2003. Since the Port accounts for all of its transactions in one Proprietary Fund, the Statement of Revenues, Expenses, and Changes in Net Position is the Port's fund based financial statement.

Funds are accounted for on a cost for services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the statement of net position (or balance sheet). Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port of Pend Oreille discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Port of Pend Oreille uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund(s).

The Port of Pend Oreille distinguishes between operating revenues and expenses from non-operating ones. The operating revenues are revenues that are incurred in the daily operations of the Pend Oreille Valley Railroad. Non-operating revenues are revenues incurred through investments and activities not directly related with daily operations.

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. This Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

The Railroad Retirement Act replaces the Social Security Act for employees in the railroad industry. Thus, benefits under the Act are not payments under a “pension plan,” but rather are federal statutory grants. The Act provides benefits for railroad employees, their spouses, divorced spouses, and survivors. Benefit amounts are divided into a social security level benefit, staff-type benefits based on railroad services and in some instances a dual benefit component.

Railroad retirement benefits are paid from the Railroad Retirement Account, which is maintained by the Department of the Treasury of the United States and is financed through taxes levied upon railroad employees and employers by the Railroad Retirement Tax Act (26 U.S.C. 3201 *et seq.*) and is administered by the Internal Revenue Service.

In no sense are benefits under the Act the result of “contributions” which have a “value” as may be the case with a privately financed pension plan. The Port of Pend Oreille does not have pension information including deferred inflows and deferred outflows related to the Railroad Retirement Board pension to be able to implement the GASB Statement No. 68.

C. Budgetary Information

1. Scope of Budget

An annual appropriated budget is adopted for the Operating Expense Fund, Debt Service Reserve Fund, Capital Project Reserve Fund, and Insurance Reserve Fund on the GAAP basis of accounting. The appropriations budgeted for all funds lapse at year end.

Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the commitments will be appropriated and honored during the subsequent year.

2. Amending the Budget

The Port Manager and/or Port Auditor are authorized to transfer budgeted amounts between funds; however, any revisions that alter the total expenditures of the Port, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Port Commissioners.

When the Port Commissioners determine that it is in the best interest of the Port to increase or decrease the appropriation for a particular fund, it may do so by resolution.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

D. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port of Pend Oreille's policy to invest all temporary cash surpluses. Total Cash and Cash Equivalents in Current Assets and Restricted Assets as of December 31, 2019 was \$79,461.16. In addition, the Port had short-term residual investments totaling \$3,483,567.51. These amounts are classified on the statement of net position as cash and cash equivalents and investments. The interest on these investments is prorated to the various funds.

The Port of Pend Oreille's deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commissioner (PDPC).

2. Investments - See Note 2 - *Deposits and Investments*

3. Receivables

Accrued interest receivable consists of amounts earned on investments at the end of the year. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. There is no allowance for doubtful accounts.

4. Inventories

Inventories are expensed when purchased. This is a departure from GAAP.

5. Restricted Assets & Liabilities

In accordance with bond regulations, separate restricted accounts are required to be established. Specific debt service reserve requirements are described in Note 6 – *Long-Term Debt*. On December 31, 2019, the Port had \$9,060.77 invested in the Debt Services Account. Other investments included \$63,326.53 in Capital Improvements Fund and \$36,180.21 in Insurance Reserves at year end December 31, 2019.

6. Capital Assets and Depreciation - See Note 3 - *Capital Assets and Depreciation*

Major expenses for capital assets including major repairs or additions that increase useful lives are capitalized. Maintenance and minor repairs are accounted for as expenses when incurred.

All capital assets are valued at cost. In the case of the sale of a significant operating unit or system, the original cost is removed from the Port's accounts and accumulated depreciation is expensed, the gain or loss is credited or charged to income.

Capital assets are recorded at cost where historical cost is known. Where historical cost is not known, assets are recorded at fair market value. Donations by developers and customers are recorded at contract price or donor cost or appraised value.

Due to the nature of the railroad industry and the high costs associated with repair parts for specialized equipment, a set dollar figure cannot be set in determining when to expense or capitalize a purchase. Port staff looks at each purchase separately in making this determination.

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Port recognizes vacation and sick leave only when paid, although this does not conform to GAAP.

Vacation and Sick leave may accumulate up to 400 hours and comp time may accumulate up to 80 hours. However, an employee is not allowed to use more than 40 hours of comp time in any calendar year for time off unless there are extenuating circumstances of an emergency nature for the employee or his/her immediate family. Also, when vacation or comp time exceeds the allowable hours then the overage is included in the next payroll payment to the employee.

At any time, employees may request to “sell back” their vacation and comp time. Upon resignation, retirement, or death, any outstanding sick leave is lost.

The unrecorded liability for unpaid vacation benefits at December 31, 2019 was approximately \$64,828.59. On December 31, 2019 the unrecorded liability for sick pay was approximately \$25,121.82. Unpaid vacation and sick leave benefits have been accrued for financial reporting in 2019.

8. Railroad Retirement Benefits – See Note 5 – *Railroad Retirement Benefits*

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt - See Note 6 - *Long-Term Debt* and Note 7 – *Leases*.

11. Risk Management – See Note 8 – *Risk Management*.

12. Subsequent Events – See Note 9 – *Subsequent Events*.

Note 2 - Deposits and Investments

A. Deposits

Cash on hand on December 31, 2019 was \$79,461.16. The carrying amount of the Port's deposits, including certificates of deposit, was \$3,483,567.51.

Custodial Credit Risk

Custodial Credit Risk is the risk that, in the event of a failure of a depository financial institution, the Port would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The port is not presented with any custodial credit risk for deposits and investments.

The Port of Pend Oreille's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Protection Commission (PDPC).

B. Investments

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by 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>.

The Port reports its investment in the LGIP at the fair market value amount, which is the same as the value of the LGIP per share. The responsibility for managing the investments in/out of the pool resides with the Pend Oreille County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants.

As required by state law, all investments of the Port of Pend Oreille's funds are obligations of the U.S. Government, deposits with Washington State Banks and Savings and Loan Institutions, or other investments allowed by Chapter 39.59 RCW. The temporary investments are stated at \$3,375,000 and \$108,567 respectively on the Statement of Net Position.

The Port of Pend Oreille's deposits and investments are Category 1 which includes deposits and investments that are either insured, registered or held by the Port or its agents, in the Port's name. All temporary investments are stated at cost.

	Category 1	Market Value
Time Deposits	\$3,483,567	\$3,483,567

Management intends to hold the time deposits and securities until maturity. Restricted assets shown on the Statement of Net Position include the following investment:

	Market Value
Time Deposits	\$108,567

Note 3 – Capital Assets and Depreciation

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

	Beginning Balance 1/1/19	Increases	Decreases	Ending Balance 12/31/19
Capital assets, not being depreciated:				
Land	\$313,319.16	\$0.00	\$0.00	\$313,319.16
Land - Industrial	\$94,569.00	\$0.00	\$0.00	\$94,569.00
Roadbed	\$705,281.46	\$0.00	\$0.00	\$705,281.46
Total capital assets, not being depreciated	\$1,113,169.62	\$0.00	\$0.00	\$1,113,169.62
Capital assets, being depreciated:				
Buildings	\$3,037,906.09	\$0.00	\$0.00	\$3,037,906.09
Machinery and equipment	\$1,882,116.09	\$0.00	\$0.00	\$1,882,116.09
Rehabilitation	\$1,068,376.17	\$0.00	\$0.00	\$1,068,376.17
Total Capital assets being depreciated	\$5,988,398.35	\$0.00	\$0.00	\$5,988,398.35
Less Accumulated depreciation for:				
Buildings	\$765,080.54	\$97,978.11	\$0.00	\$863,058.65
Machinery and equipment	\$1,448,901.15	\$45,476.95	\$0.00	\$1,494,378.10
Rehabilitation	\$1,068,376.17	\$0.00	\$0.00	\$1,068,376.17
Total accumulated depreciation	\$3,282,357.86	\$143,455.06	\$0.00	\$3,425,812.92
Total Capital assets, being depreciated, net	\$2,706,040.49	-\$143,455.06	\$0.00	\$2,562,585.43

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

Accumulated depreciation on assets in the year 2019 totaled \$143,455.06.

<u>Current Asset</u>	<u>Useful Life</u>	<u>Depreciation in 2019</u>
Buildings	10 + Years	\$97,978.11
Hyrrails & Autos	5 Years	\$18,137.97
Shop & Maint. Equip.	1-20 Years	\$27,338.98

Note 4 – Construction and Other Significant Commitments

A. Construction Commitments

The Port of Pend Oreille does not have any Construction Commitments at this time.

B. Washington State Track Project

The Port of Pend Oreille was awarded a Track Project State Grant in 2017 for track repairs and disposal of the old railroad ties with a completion deadline of by June 30, 2019. The expenditures are to be invoiced to the State upon completion of the repairs. All the costs in relation to the Track Project that were expensed in 2017 and 2018 have been invoiced or reimbursed for in 2018. Not receiving the grant revenue for this Track Project in 2017 resulted in a negative Net Operating Balance on the financials due to the direct costs of the expenditures to this Track Project. One portion of the Track Project was not finished in 2018 and will be completed in 2019 when it will be invoiced for reimbursement. The total expenses invoiced and reimbursed for at the end of 2018 are in the amount of \$563,581.78. Total expenses invoiced and reimbursed for at the end of 2019 are in the amount of \$2,698.22.

The State of Washington will maintain its contingent interest in a form consistent with RCW 47.76.250(10) for 10 years following the Track Project's completion. During this time the Port of Pend Oreille may not (a) use the rail line, property or equipment purchased with funds from the grant as collateral, (b) remove track, or associated elements for salvage, or (c) use the Track Project capital improvements or equipment in any manner subordinating the State's Contingent Interests without obtaining prior written permission from the State of Washington.

The requirement that the track improvements and equipment be maintained for rail service shall also be required of all subsequent purchasers, persons, or entities acquiring all, or a material portion of, the line upon which the Track Project is constructed. The Port of Pend Oreille shall be obligated to include in any contract sale or other dispositional agreement for all, or any portion of, the Track Project provisions sufficient to perpetuate the State's Contingent Interest to the Track Project capital improvements and equipment upon the consummation of any such conveyance.

Note 5 – Railroad Retirement Benefits

All employees of the Port are covered by one of the following systems:

- a. Non-railroad employees of the Port are covered only by Social Security.
- b. All railroad employees of the Port are covered under the Railroad Retirement Act.

Railroad Retirement Act

The Railroad Retirement Act is a federal law that provides retirement and disability annuities for qualified railroad employees, spouse annuities, and survivors' benefits for the families of the deceased employees who were injured under the act. The Railroad Retirement Act is supported by taxes levied against the employees and the employer. Tax amounts payable by railroad employers are calculated by applying appropriate tax rates to the total monthly taxable payroll earned by the entire railroad employees. In addition to the regular railroad retirement taxes, employers must also pay: (1) A tax rate determined quarterly by the Railroad Retirement Board (RRB) on each hour of compensated service performed by the employees, to finance the railroad retirement supplemental annuity program; (2) A tax rate of 2.15% percent for 2019, determined by the balance in the railroad unemployment insurance account, on the first \$1,605 of employee's monthly earnings to support the railroad unemployment program. The Port's contribution under the Railroad Retirement Act represents its full liability under the system.

Contribution rates for 2019 are as follows:

	<u>Employee</u>	<u>Employer</u>
Medicare	1.45%	1.45%
Tier I	6.20%	6.20%
Tier II	4.90%	13.10%

Note 6 – Long-Term Debt

The Port of Pend Oreille entered into revenue bonds debt to purchase the railroad and complete rehabilitation construction work. The revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Outstanding</u>
1981 Series A	5%	\$ 4,000
1981 Series B	5%	<u>\$ 12,000</u>
Total		<u>\$ 16,000</u>

This annual requirement to redeem all debts outstanding as of December 31, 2019, including interest, is as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 8,000.00	\$ 800.00	\$ 8,800.00
2021	<u>\$ 8,000.00</u>	<u>\$ 400.00</u>	<u>\$ 8,400.00</u>
Totals	<u>\$ 16,000.00</u>	<u>\$ 1,200.00</u>	<u>\$ 17,200.00</u>

The maturity date of the bonds is April 1, 2021. However, the bond covenant provides for earlier retirement by purchase or redemption at any time. No partial payment shall extend or postpone the due date of any subsequent installments and are to be made in multiples of \$1,000. In addition, the covenant requires the Port to maintain a reserve account into which shall be deposited sufficient sums each year so that within a period of 10 years from the date of the bonds, said reserves shall be sufficient to pay one year's debt service requirement on the bonds. At the end of 2019, the Port did have the required balance in the reserve account. The Port had \$9,060.77 in the current reserve account at the end of 2019 to meet the current reserve requirement.

Port of Pend Oreille covenants with the holder of each of the Port bonds that among other things, the Port will maintain reserves sufficient to cover all operation and maintenance expenses and an amount equal to or exceeding 1.3 times the average annual principal and interest payments on the outstanding bonds, if more issues are to be authorized. There are a number of other limitations and restrictions contained in the various bond indentures.

Note 7 - Leases

The Port leases the Sandpoint rail line under a non-cancelable 20-year operating lease. The lease payments were \$6,670.00 monthly through March 31, 2001. Commencing as of April 1, 2001, the monthly charge was to be adjusted annually according to the Rail Cost Adjustment Factor. The Rail Cost Adjustment Factor is based on 50% of the increase or decrease between the first quarter of that year compared to the first quarter of the prior year. This contractual adjustment increase was not implemented until May 2008. The Port was charged for the past three years contract difference in 2008, and then preceded monthly with the correct amount based on the Rail Cost Adjustment Factor. The current monthly rate at November 30, 2008 was \$7,899.37.

Another change was put into effect as of December 1, 2008 due to economic factors. The change allowed for a reduction in the lease payments to \$5,000.00 monthly from December 1, 2008 to December 31, 2019. Due to economic factors a continual extension was granted of the monthly lease payment of \$5,000.00 and will remain unchanged until a new contract agreement has been signed. As of December 31, 2019, the Port of Pend Oreille does not have a new contract agreement and is on a month to month basis with this Lease.

The total cost of the lease was \$60,000 (\$5,000.00 x 12 months) for the period ending December 31, 2019.

Note 8 - Risk Management

The Port has an insurance deductible for general liability, bill of lading/property losses, bodily injury, personal injury and Federal Employer Liability Act (FELA) coverage up to \$25,000 per incident with an annual aggregate of \$25,000. The Port has a deductible for foreign rolling stock losses up to \$5,000 per occurrence. In addition, the Port has a deductible under its Error and Omissions Policy for up to \$10,000 per occurrence. General liability insurance reserves at December 31, 2019 were \$36,180.21.

The Port has an insurance policy to cover any litigation with a \$10,000 to \$25,000 deductible. In the opinion of management, the Port's insurance policy and \$10,000 to \$25,000 deductible retained by the Port are adequate to pay all known or pending claims.

The reporting requirement for risk management, schedule 21, is not applicable to the Port because the Port's only risk financed or assumed is an annual deductible of a purchased insurance policy.

Risk Pool: The Port of Pend Oreille is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39-34 RCW when two (2) counties and two (2) cities in the State of Washington joined

together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services.

As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

The Pool is governed by a Board of Directors which is comprised of seven board members. The pool’s members elect the Board and the positions are filled on a rotating

basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

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

Note 9 – Subsequent Events

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

On March 25, 2020, the Port of Pend Oreille closed our doors to the public but remained open for business. We are an essential business and have continued our operations as a railroad industry. All our employees continued to work through this time with safety being our priority. We re-opened our doors to the public on May 5, 2020. Any financial impact on the Port is unknown currently.

In June 2020, one of our major shippers, Ponderay Newsprint, filed for bankruptcy. We are expecting this to have a significant impact on the Port's operations and revenues. Although, the full extent of the impact is unknown currently.

Note 10 – Restricted Component of Net Position

The Port does not have any restricted components of net position.

Note 11 – Contingencies and Litigation

The Port's financial statements include all material liabilities. In the opinion of management, the Port's Insurance Policies are adequate to pay all known litigation or pending claims.

2018 Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Port of Pend Oreille was created in 1979 and operates under the laws of the State of Washington applicable to Port Districts.

The Port of Pend Oreille is a special purpose government and provides railroad services to the general public and is supported primarily through user charges.

The Port of Pend Oreille is governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port of Pend Oreille does not have any component units.

B. Basis of Accounting and Reporting

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

The Port continues to use the general provisions of the GASB Statement 34 as implemented in fiscal year 2003. Since the Port accounts for all of its transactions in one Proprietary Fund, the Statement of Revenues, Expenses, and Changes in Net Position is the Port's fund based financial statement.

Funds are accounted for on a cost for services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the statement of net position (or balance sheet). Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port of Pend Oreille discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Port of Pend Oreille uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund(s).

The Port of Pend Oreille distinguishes between operating revenues and expenses from non-operating ones. The operating revenues are revenues that are incurred in the daily operations of the Pend Oreille Valley Railroad. Non-operating revenues are revenues incurred through investments and activities not directly related with daily operations.

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. This Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

The Railroad Retirement Act replaces the Social Security Act for employees in the railroad industry. Thus, benefits under the Act are not payments under a “pension plan,” but rather are federal statutory grants. The Act provides benefits for railroad employees, their spouses, divorced spouses, and survivors. Benefit amounts are divided into a social security level benefit, staff-type benefits based on railroad services and in some instances a dual benefit component.

Railroad retirement benefits are paid from the Railroad Retirement Account, which is maintained by the Department of the Treasury of the United States and is financed through taxes levied upon railroad employees and employers by the Railroad Retirement Tax Act (26 U.S.C. 3201 *et seq.*) and is administered by the Internal Revenue Service.

In no sense are benefits under the Act the result of “contributions” which have a “value” as may be the case with a privately-financed pension plan. The Port of Pend Oreille does not have pension information including deferred inflows and deferred outflows related to the Railroad Retirement Board pension to be able to implement the GASB Statement No. 68.

C. Budgetary Information

1. Scope of Budget

An annual appropriated budget is adopted for the Operating Expense Fund, Debt Service Reserve Fund, Capital Project Reserve Fund, and Insurance Reserve Fund on the GAAP basis of accounting. The appropriations budgeted for all funds lapse at year end.

Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the commitments will be appropriated and honored during the subsequent year.

2. Amending the Budget

The Port Manager and/or Port Auditor are authorized to transfer budgeted amounts between funds; however, any revisions that alter the total expenditures of the Port, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Port Commissioners.

When the Port Commissioners determine that it is in the best interest of the Port to increase or decrease the appropriation for a particular fund, it may do so by resolution.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

D. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port of Pend Oreille's policy to invest all temporary cash surpluses. Total Cash and Cash Equivalents in Current Assets and Restricted Assets as of December 31, 2018 was \$87,613.12. In addition, the Port had short-term residual investments totaling \$3,577,193.63. These amounts are classified on the statement of net position as cash and cash equivalents and investments. The interest on these investments is prorated to the various funds.

The Port of Pend Oreille's deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commissioner (PDPC).

2. Investments - See Note 3 - *Deposits and Investments*

3. Receivables

Accrued interest receivable consists of amounts earned on investments at the end of the year. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. There is no allowance for doubtful accounts.

4. Inventories

Inventories are expensed when purchased. This is a departure from GAAP.

5. Restricted Assets & Liabilities

In accordance with bond regulations, separate restricted accounts are required to be established. Specific debt service reserve requirements are described in Note 7 – *Long-Term Debt*. On December 31, 2018, the Port had \$49,886.48 invested in the Debt Services Account. Other investments included \$61,926.70 in Capital Improvements Fund and \$35,380.45 in Insurance Reserves at year end December 31, 2018.

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

Major expenses for capital assets including major repairs or additions that increase useful lives are capitalized. Maintenance and minor repairs are accounted for as expenses when incurred.

All capital assets are valued at cost. In the case of the sale of a significant operating unit or system, the original cost is removed from the Port's accounts and accumulated depreciation is expensed, the gain or loss is credited or charged to income.

Capital assets are recorded at cost where historical cost is known. Where historical cost is not known, assets are recorded at fair market value. Donations by developers and customers are recorded at contract price or donor cost or appraised value.

Due to the nature of the railroad industry and the high costs associated with repair parts for specialized equipment, a set dollar figure cannot be set in determining when to expense or capitalize a purchase. Port staff looks at each purchase separately in making this determination.

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Port recognizes vacation and sick leave only when paid, although this does not conform to GAAP.

Vacation and Sick leave may accumulate up to 400 hours and comp time may accumulate up to 80 hours. However, an employee is not allowed to use more than 40 hours of comp time in any calendar year for time off unless there are extenuating circumstances of an emergency nature for the employee or his/her immediate family. Also, when vacation or comp time exceeds the allowable hours then the overage is included in the next payroll payment to the employee.

At any time employees may request to “sell back” their vacation and comp time. Upon resignation, retirement, or death, any outstanding sick leave is lost.

The unrecorded liability for unpaid vacation benefits at December 31, 2018 was approximately \$63,679.94. At December 31, 2018 the unrecorded liability for sick pay was approximately \$25,301.35. Unpaid vacation and sick leave benefits have been accrued for financial reporting in 2018 which is a change from past years.

8. Railroad Retirement Benefits – See Note 6 – *Railroad Retirement Benefits*

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt - See Note 7 - *Long-Term Debt* and Note 8 – *Leases*.

11. Risk Management – See Note 9 – *Risk Management*.

Note 2 – Accounting and Reporting Changes

The Port of Pend Oreille’s reporting for all previous years before 2018 were audited and accepted by the State Auditor. We have made the change to accrue the compensated absences at year end and include these amounts in our liabilities for financial reporting per the recommendation of the State Auditor.

Note 3 - Deposits and Investments

A. Deposits

Cash on hand at December 31, 2018 was \$87,613.12. The carrying amount of the Port's deposits, including certificates of deposit, was \$3,577,193.63.

Custodial Credit Risk

Custodial Credit Risk is the risk that, in the event of a failure of a depository financial institution, the Port would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The port is not presented with any custodial credit risk for deposits and investments.

The Port of Pend Oreille's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Protection Commission (PDPC).

B. Investments

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by 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>.

The Port reports its investment in the LGIP at the fair market value amount, which is the same as the value of the LGIP per share. The responsibility for managing the investments in/out of the pool resides with the Pend Oreille County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants.

As required by state law, all investments of the Port of Pend Oreille's funds are obligations of the U.S. Government, deposits with Washington State Banks and Savings and Loan Institutions, or other investments allowed by Chapter 39.59 RCW. The temporary investments are stated at \$3,430,000 and \$147,194 respectively on the Statement of Net Position.

The Port of Pend Oreille's deposits and investments are Category 1 which includes deposits and investments that are either insured, registered or held by the Port or its agents, in the Port's name. All temporary investments are stated at cost.

	Category 1	Market Value
Time Deposits	\$3,577,194	\$3,577,194

Management intends to hold the time deposits and securities until maturity. Restricted assets shown on the Statement of Net Position include the following investment:

	Market Value
Time Deposits	\$147,194

Note 4 – Capital Assets and Depreciation

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

	Beginning Balance 1/1/18	Increases	Decreases	Ending Balance 12/31/18
Capital assets, not being depreciated:				
Land	\$313,319.16	\$0.00	\$0.00	\$313,319.16
Land - Industrial	\$94,569.00	\$0.00	\$0.00	\$94,569.00
Roadbed	\$705,281.46	\$0.00	\$0.00	\$705,281.46
Construction in Progress	\$451,050.08	\$18,521.30	\$469,571.38	\$0.00
Total capital assets, not being depreciated	\$1,564,219.70	\$18,521.30	\$469,571.38	\$1,113,169.62
Capital assets, being depreciated:				
Buildings	\$2,541,100.37	\$496,805.72	\$0.00	\$3,037,906.09
Machinery and equipment	\$1,910,636.74	\$0.00	\$28,520.65	\$1,882,116.09
Rehabilitation	\$1,068,376.17	\$0.00	\$0.00	\$1,068,376.17
Total Capital assets being depreciated	\$5,520,113.28	\$496,805.72	\$28,520.95	\$5,988,398.35
Less Accumulated depreciation for:				
Buildings	\$681,591.65	\$83,488.89	\$0.00	\$765,080.54
Machinery and equipment	\$1,415,830.57	\$61,591.23	\$28,520.65	\$1,448,901.15
Rehabilitation	\$1,068,376.17	\$0.00	\$0.00	\$1,068,376.17
Total accumulated depreciation	\$3,165,798.39	\$145,080.12	\$28,520.65	\$3,282,357.86
Total Capital assets, being depreciated, net	\$2,354,314.89	\$351,725.60	\$0.00	\$2,706,040.49

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

Accumulated depreciation on assets in the year 2018 totaled \$145,080.12.

<u>Current Asset</u>	<u>Useful Life</u>	<u>Depreciation in 2018</u>
Buildings	10 + Years	\$83,488.89
Hyrails & Autos	5 Years	\$28,449.31
Shop & Maint. Equip.	1-20 Years	\$33,141.92

Note 5 – Construction and Other Significant Commitments

A. Construction Commitments

In 2015, the Port of Pend Oreille began the preliminary plans for a Blast Booth to be an addition onto our Shop Building. The Port entered into a contract for the design with James A. Sewell & Associates, LLC in 2015 and by the end of 2016 this project was not completed. In 2017, the Port entered into a contract with RRACO, Inc. for the construction of the Blast Booth. Costs incurred with the Blast Booth will be an increase in Construction in Progress until the project is completed and then those costs will be capitalized and depreciated. Construction of the Blast Booth was completed in 2018 with a final cost of \$496,805.72.

B. Washington State Track Project

The Port of Pend Oreille was awarded a Track Project State Grant in 2017 for track repairs and disposal of the old railroad ties with a completion deadline of by June 30, 2019. The expenditures are to be invoiced to the State upon completion of the repairs. All of the costs in relation to the Track Project that were expensed in 2017 and 2018 have been invoiced or reimbursed for in 2018. Not receiving the grant revenue for this Track Project in 2017 resulted in a negative Net Operating Balance on the financials due to the direct costs of the expenditures to this Track Project. One portion of the Track Project was not completely finished in 2018 and will be completed in 2019 when it will be invoiced for reimbursement. The total expenses invoiced and reimbursed for at the end of 2018 are in the amount of \$563,581.78.

The State of Washington will maintain its contingent interest in a form consistent with RCW 47.76.250(10) for 10 years following the Track Project's completion. During this time the Port of Pend Oreille may not (a) use the rail line, property or equipment purchased with funds from the grant as collateral, (b) remove track, or associated elements for salvage, or (c) use the Track Project capital improvements or equipment in any manner subordinating the State's Contingent Interests without obtaining prior written permission from the State of Washington.

The requirement that the track improvements and equipment be maintained for rail service shall also be required of all subsequent purchasers, persons, or entities acquiring all, or a material portion of, the line upon which the Track Project is constructed. The Port of Pend Oreille shall be obligated to include in any contract sale or other dispositional agreement for all, or any portion of, the Track Project provisions sufficient to perpetuate the State's Contingent Interest to the Track Project capital improvements and equipment upon the consummation of any such conveyance.

Note 6 – Railroad Retirement Benefits

All employees of the Port are covered by one of the following systems:

- a. Non-railroad employees of the Port are covered only by Social Security;
- b. All railroad employees of the Port are covered under the Railroad Retirement Act.

Railroad Retirement Act

The Railroad Retirement Act is a federal law that provides retirement and disability annuities for qualified railroad employees, spouse annuities, and survivors' benefits for the families of the deceased employees who were injured under the act. The Railroad Retirement Act is supported by taxes levied against the employees and the employer. Tax amounts payable by railroad employers are calculated by applying appropriate tax rates to the total monthly taxable payroll earned by the entire railroad employees. In addition to the regular railroad retirement taxes, employers must also pay: (1) A tax rate determined quarterly by the Railroad Retirement Board (RRB) on each hour of compensated service performed by the employees, to finance the railroad retirement supplemental annuity program; (2) A tax rate of 2.15% percent for 2018, determined by the balance in the railroad unemployment insurance account, on the first \$1,560 of employee's monthly earnings to support the railroad unemployment program. The Port's contribution under the Railroad Retirement Act represents its full liability under the system.

Contribution rates for 2018 are as follows:

	<u>Employee</u>	<u>Employer</u>
Medicare	1.45%	1.45%
Tier I	6.20%	6.20%
Tier II	4.90%	13.10%

Note 7 – Long-Term Debt

The Port of Pend Oreille entered into revenue bonds debt to purchase the railroad and complete rehabilitation construction work. The revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Outstanding</u>
1979 Series A	5%	\$ 10,000
1979 Series B	5%	\$ 22,000
1981 Series A	5%	\$ 6,000
1981 Series B	5%	<u>\$ 17,000</u>
Total		<u>\$ 55,000</u>

This annual requirement to redeem all debts outstanding as of December 31, 2018, including interest, is as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 39,000.00	\$ 2,750.00	\$ 41,750.00
2020	\$ 8,000.00	\$ 800.00	\$ 8,800.00
2021	<u>\$ 8,000.00</u>	<u>\$ 400.00</u>	<u>\$ 8,400.00</u>
Totals	<u>\$ 55,000.00</u>	<u>\$ 3,950.00</u>	<u>\$ 58,950.00</u>

The maturity date of the bonds is April 1, 2021. However, the bond covenant provides for earlier retirement by purchase or redemption at any time. No partial payment shall extend or postpone the due date of any subsequent installments and are to be made in multiples of \$1,000. In addition, the covenant requires the Port to maintain a reserve account into which shall be deposited sufficient sums each year so that within a period of 10 years from the date of the bonds, said reserves shall be sufficient to pay one year's debt service requirement on the bonds. At the end of 2018, the Port did have the required balance in the reserve account. The Port had \$49,886.48 in the current reserve account at the end of 2018 to meet the current reserve requirement.

Port of Pend Oreille covenants with the holder of each of the Port bonds that among other things, the Port will maintain reserves sufficient to cover all operation and maintenance expenses and an amount equal to or exceeding 1.3 times the average annual principal and interest payments on the outstanding bonds, if more issues are to be authorized. There are a number of other limitations and restrictions contained in the various bond indentures.

Note 8 - Leases

The Port leases the Sandpoint rail line under a non-cancelable 20 year operating lease. The lease payments were \$6,670.00 monthly through March 31, 2001. Commencing as of April 1, 2001, the monthly charge was to be adjusted annually according to the Rail Cost Adjustment Factor. The Rail Cost Adjustment Factor is based on 50% of the increase or decrease between the first quarter of that year compared to the first quarter of the prior year. This contractual adjustment increase was not implemented until May 2008. The Port was charged for the past three years contract difference in 2008, and then preceded monthly with the correct amount based on the Rail Cost Adjustment Factor. The current monthly rate at November 30, 2008 was \$7,899.37.

Another change was put into effect as of December 1, 2008 due to economic factors. The change allowed for a reduction in the lease payments to \$5,000.00 monthly from December 1, 2008 to December 31, 2018. Due to economic factors a continual extension was granted of the monthly lease payment of \$5,000.00 and will remain unchanged until a new contract agreement has been signed.

The total cost of the lease was \$60,000 (\$5,000.00 x 12 months) for the period ending December 31, 2018.

Note 9 - Risk Management

The Port has an insurance deductible for general liability, bill of lading/property losses, bodily injury, personal injury and Federal Employer Liability Act (FELA) coverage up to \$25,000 per incident with an annual aggregate of \$25,000. The Port has a deductible for foreign rolling stock losses up to \$5,000 per occurrence. In addition, the Port has a deductible under its Error and Omissions Policy for up to \$10,000 per occurrence. General liability insurance reserves at December 31, 2018 were \$35,380.45.

The Port has an insurance policy to cover any litigation with a \$10,000 to \$25,000 deductible. In the opinion of management, the Port's insurance policy and \$10,000 to \$25,000 deductible retained by the Port are adequate to pay all known or pending claims.

The reporting requirement for risk management, schedule 21, is not applicable to the Port because the Port's only risk financed or assumed is an annual deductible of a purchased insurance policy.

Risk Pool: The Port of Pend Oreille is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39-34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services.

As of August 31, 2018, there are 549 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

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

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

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

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

Note 10 – Restricted Component of Net Position

The Port does not have any restricted components of net position.

Note 11 – Contingencies and Litigation

The Port's financial statements include all material liabilities. In the opinion of management, the Port's Insurance Policies are adequate to pay all known litigation or pending claims.

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