



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Port of Skagit County

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

Published September 3, 2020

Report No. 1026879





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

September 3, 2020

Board of Commissioners
Port of Skagit County
Burlington, Washington

Report on Financial Statements

Please find attached our report on the Port of Skagit County'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

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

**Port of Skagit County
January 1, 2019 through December 31, 2019**

Board of Commissioners
Port of Skagit County
Burlington, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Skagit County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated August 27, 2020.

As discussed in Note 18 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative effect on the Port.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

August 27, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Skagit County January 1, 2019 through December 31, 2019

Board of Commissioners
Port of Skagit County
Burlington, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

Matters of Emphasis

As discussed in Note 18 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 27, 2020 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

August 27, 2020

FINANCIAL SECTION

Port of Skagit County January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

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

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Schedule of Changes in Total OPEB Liability and Related Ratios – 2019

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

Introduction

The following is the Port of Skagit County's (the Port's) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year ended December 31, 2019, with selected comparative information for the year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

Overview of the Financial Statements

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

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

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

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

Financial Analysis

Condensed Financial Position Information

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

Financial Highlights

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by \$61 million (reported as total net position), which was about the same as the prior year.
- Total assets decreased by about \$2.3 million from 2018, primarily from nearly \$4 million of dredging expenses at the La Conner Marina that were booked as an operating expense in 2019.
- Total liabilities decreased approximately \$1.9 million from 2018 due primarily to the payment of principal on bonds and notes payable.

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

NET POSITION

	2019	2018
Current and restricted assets:	\$ 8,314,316	\$ 11,541,920
Capital assets, net	81,635,185	80,735,297
Total Assets	\$ 89,949,501	\$ 92,277,217
Deferred Outflows of Resources:		
Bond discounts	5,281	7,041
Amount on refunding	242,233	267,390
Deferred Outflows - Pension	282,397	227,740
Deferred Outflows - OPEB	8,105	4,777
Total Deferred Outflows of Resources	538,016	506,948
Current liabilities	3,799,533	3,991,927
Noncurrent liabilities	25,240,404	26,992,864
Total Liabilities	29,039,937	30,984,791
Deferred Inflows of Resources:		
Bond premiums	297,683	320,581
Fiber maintenance user charges	10,000	10,000
Deferred amount - GASB 68	467,145	391,020
Total Deferred Inflows of Resources	774,828	721,601
Net Position:		
Net Investment in Capital Assets	60,581,539	61,936,837
Restricted for Liquidation of LT Debt	2,128,946	2,039,799
Restricted for Construction of Noncurrent Assets	1,193,688	4,950,962
Unrestricted Net Position	(3,231,424)	(7,849,825)
Total Net Position	\$ 60,672,749	\$ 61,077,773

Summary of Operations and Changes in Net Position

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

Revenues:

- The Port experienced stable occupancy at all its leasehold facilities.
- Total revenues reported in the property lease, rental operations increased by about \$1.7 million over the previous year, largely due to rents received for a full year from SWIFT Center tenants, as compared to just six months in 2018, as the property was acquired from the State of Washington in June 2018.

- Total revenues reported at the Marina decrease about \$107,000 from the prior year, largely due to reduced moorage during a major marina dredging project.
- Total operating revenues increased by approximately \$2.2 million (26.2%) over 2018 revenues.

Expenses:

- 2019 total operating expenses increased by approximately \$3.4 million (32%) over 2018 expenses. Operating loss, after depreciation, was about \$3.7 million for the year ended December 31, 2019, compared to an operating loss, after depreciation, of \$2.4 million for the year ended December 31, 2018, a negative net change of about \$1.3 million.

Non-Operating Revenues (Expenses):

- Non-operating revenues for the year ended December 31, 2019 was \$4.7 million (of which \$4 million represented taxes levied). Non-operating expense was \$1 million, which is mostly interest expense.

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

	2019	2018
Operating Revenues:		
Airport Operations	\$ 1,402,436	\$ 806,787
Marina Operations	3,221,309	3,328,382
Property Lease/Rental Operations	5,810,656	4,070,832
General and Administrative	25,995	79,141
Total Operating Revenues	10,460,396	8,285,142
Operating Expenses:		
General Operations	5,206,104	4,113,273
Maintenance	3,599,333	940,607
General and Administrative	2,730,902	2,218,295
Depreciation	2,586,545	3,412,904
Total Operating Expenses	14,122,884	10,685,079
NET OPERATING INCOME (LOSS)	(3,662,488)	(2,399,937)
Non Operating Income (Expenses):		
Taxes Levied for Capital Improvement	2,343,289	2,289,964
Taxes Levied for Industrial Development	1,700,854	-
Investment Income	169,383	164,757
Grant Proceeds	-	-
State Forest and Timber Excise Taxes	493,977	375,298
Other Income and Expenses	(202,790)	162,207
Proceeds from Sale/Disposition	-	7,075,338
Interest Expense	(788,084)	(831,146)
Total Non-Operating Income	3,716,629	9,236,418
Environmental Expenses:		
Environmental Remediation Expenses	-	-
Change in Remediation Estimate	-	(2,198,912)
Total Environmental Expenses	-	(2,198,912)
CHANGE IN NET ASSETS	54,141	4,637,569
TOTAL NET POSITION - BEGINNING	61,077,773	53,514,530
Prior Period Adjustment	(1,348,186)	170,024
Capital Contributions	889,023	3,953,705
Change in Accounting Principle	-	(1,198,056)
TOTAL NET POSITION - ENDING	\$ 60,672,751	\$ 61,077,772

Capital Asset and Debt Administration

Capital Assets

The Port's investment in total net capital assets as of December 31, 2019 totaled \$81.6 million (net of accumulated depreciation). The Port's investment in capital assets includes land, facilities (structures/buildings), machinery and equipment and construction in progress. The total increase in the Port's investment in total net capital assets for the current year was about \$900,000 or about 1%.

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

Long-Term Debt

Long-term debt (net of current portion and not including environmental remediation) totaled \$22.2 million as of December 31, 2019. Of this amount, \$18.9 million comprises general obligation debt and the remainder is seller-financed debt for a land acquisition.

On June 6, 2016 the Port opened a ten-year LTGO \$6 million decreasing line of credit with Skagit Bank to be used for funding revenue producing capital projects. As of December 31, 2019, the line of credit balance was \$0, with a remaining available capacity of \$4.2 million. In 2020 the Port closed that line of credit and opened a new line of credit with Banner Bank for \$6 million.

The current portion of long-term debt totaled \$1.5 million and the Port had \$2.1 million in sinking funds and reserves as required by bond indentures as of year-end.

The net liability for environmental remediation (per GASB Statement No. 49) remained at about \$2.2 million, almost unchanged from the prior year. On June 29, 2018 the State of Washington transferred ownership of the former Northern State Hospital site (now called "SWIFT Center"), which was encumbered with an estimated cost of environmental remediation of about \$2.2 million. The cleanup is expected to be performed and funded by grants from US Environmental Protection Agency, State of Washington Department of Ecology, and Pollution Liability Insurance Agency.

Additional information on the Port's long-term debt, including the environmental remediation liability, can be found in Note 10 in the *Notes to the Financial Statements*.

2020 Budget

The Port's 2020 operating revenues are forecast at \$10.4 million, which is an increase of \$400,000 or 4% over the 2019 budgeted operating revenues. This represents normal CPI increases in land rentals and moorage rates. These budget figures will likely be revised downward due to decreased moorage and rents due to the economic turmoil caused by COVID-19. Note 18 – Subsequent Events discusses the possible effects and the Port's response in greater detail.

The Port's 2020 operating expenses are forecast at \$9.5 million, which is an increase of \$1.6 million or 19.6% over the prior year's budget, mostly due to an increase in repairs and maintenance at the SWIFT Center and other Port facilities.

The 2020 capital budget, as adopted, is \$15.2 million. Over half (57%) is for capital improvements at the Skagit Regional Airport/Bayview Business Park, another \$1.5 million is for a dredging project at the La Conner Marina, and \$1.5 million is set aside for the county-wide fiber project.

In 2020 the Port budgeted to collect \$2.4 million in property taxes, which is just \$25,000 over the 2019 budget. Property taxes are used for infrastructure, economic growth, safety, community and environmental purposes. 50% of taxes will go towards debt payments, 21% toward projects, 16% for economic opportunity growth, 5% for environmental, 4% for memberships, 3% for community outreach and 1% for training and travel. The Port also budgeted to collect \$2.2 million in industrial development levy, which will be used for industrial development.

Requests for Information

The Port of Skagit County designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional financial information, please visit our website at www.portofskagit.com or contact Greg Thramer, Finance Director, 15400 Airport Drive, Burlington, WA 98233 or via phone at 360-757-0011.

PORT OF SKAGIT COUNTY
Statement of Net Position
For the Year Ended December 31, 2019

CURRENT ASSETS

Cash and cash equivalents (Note 1)	\$ 4,368,387
Restricted Assets	
Cash and cash equivalents (Note 1)	3,322,636
Taxes Receivable	72,682
Accounts receivable (net of allowance for uncollectibles)	259,376
Prepaid Expenses	<u>291,235</u>
Total Current Assets	<u>\$ 8,314,316</u>

NONCURRENT ASSETS

Capital Assets not being depreciated (Note 4)	
Land	\$ 20,208,438
Construction Work in progress	2,975,450
Capital Assets being depreciated (Note 4)	
Buildings	47,455,766
Improvements other than buildings	59,983,024
Machinery and Equipment	5,612,219
Less: Accumulated Depreciation	<u>(54,599,711)</u>
Total Net Capital Assets	\$ 81,635,185
Total Noncurrent Assets	<u>\$ 81,635,185</u>

TOTAL ASSETS

\$ 89,949,501

DEFERRED OUTFLOWS OF RESOURCES:

Bond Discounts (Note 1)	\$ 5,281
Amount on Refunding (Note 1)	242,233
Deferred Outflows - Pension	282,397
Deferred Outflows - OPEB	<u>8,105</u>
Total Deferred Outflows	<u><u>\$ 538,016</u></u>

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Net Position
For the Year Ended December 31, 2019

LIABILITIES AND NET POSITION**CURRENT LIABILITIES:**

Warrants Payable	\$ 73,130
Accounts Payable	1,359,554
Accrued Expenses	245,177
Current Portion notes payable	142,115
Current Portion of long-term obligations	1,401,140
Customer deposits	<u>578,417</u>

Total Current Liabilities \$ 3,799,533

NONCURRENT LIABILITIES:

General Obligation Bonds Payable (Note 10)	\$ 17,517,566
Notes Payable (Note 10)	3,134,449
Environmental remediation (Note 14)	2,200,665
Pension Liabilities	888,444
Employee leave benefits	301,575
OPEB Liabilities	<u>1,197,705</u>

Total Noncurrent Liabilities \$ 25,240,404

TOTAL LIABILITIES \$ 29,039,937

DEFERRED INFLOWS OF RESOURCES:

Bond Premiums (Note 1)	\$ 297,683
Fiber Maintenance User Charges (Note 1)	10,000
Deferred Inflows - Pension	467,145
Deferred Inflows - Tax Levy	<u>(0)</u>

Total Deferred Inflows \$ 774,827

NET POSITION:

Net Investment in Capital Assets	\$ 60,581,539
Restricted for liquidation of long term debts	2,128,946
Restricted for construction of noncurrent assets	1,193,688
Unrestricted Net Position	<u>(3,231,424)</u>

TOTAL NET POSITION \$ 60,672,750

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2019

REVENUES, EXPENSES AND CHANGES IN NET POSITION**OPERATING REVENUES:**

Airport Operations	\$ 1,402,436
Marina Operations	3,221,309
Property lease/rental operations	5,810,656
General and Administrative	<u>25,995</u>

Total Operating Revenues \$ 10,460,395

OPERATING EXPENSES:

General Operations	\$ 5,206,104
Maintenance	3,599,333
General and administrative	2,730,902
Depreciation (Note 4)	<u>2,586,545</u>

Total Operating Expenses \$ 14,122,884

Income (Loss) From Operations \$ (3,662,489)

NON OPERATING REVENUES (EXPENSES)

Interest Income	\$ 169,383
Taxes levied for:	
Capital improvement (Note 3)	2,343,289
Industrial Development	1,700,854
State Forest Revenues	408,421
Timber Excise Taxes	85,556
Leasehold Excise Tax	13,582
Grant Proceeds (Note 11)	-
Interest (expenses)	(788,084)
Other nonoperating revenues	22,899
Other nonoperating (expenses)	(239,271)
Proceeds from sale/disposition of assets	-
Environmental Remediation	-
Change in Remediation Estimate	<u> </u>

Total Nonoperating Revenues (Expenses) \$ 3,716,628

**Income (Loss) before capital contributions and prior
Capital Contributions (Note 15)** \$ 54,140
889,023

Prior Period Adjustment (1,348,186)

Net Position - Beginning of Period \$ 61,077,773

Net Position - End of Period \$ 60,672,750

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 13,318,318
Cash paid to suppliers for goods/services	(11,557,394)
Cash paid to employees for services	<u>(2,438,599)</u>
Net cash provided by operating activities	\$ (677,675)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Cash received for property taxes	\$ 4,048,732
Cash received from other taxes and financing fees	<u>507,559</u>
Net cash provided (used) by non-capital financing activities	\$ 4,556,291

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Proceeds from issuance of debt	\$ -
Proceeds from sale of assets	-
Principal paid on capital debt	(1,498,002)
Interest paid on capital debt	(788,084)
Acquisition and construction of capital assets	(3,486,433)
Capital grants received	<u>889,023</u>
Net cash provided by (used in) capital and related financing activities	\$ (4,883,496)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	\$ 169,383
Purchase of Investments	(7,924,939)
Proceeds of Investments	<u>5,482,019</u>
Net cash provided by investing activities	\$ (2,273,537)
Net increase in cash and cash equivalents	(3,278,417)

CASH AND CASH EQUIVALENTS

Beginning of year	<u>10,969,440</u>
End of Year	<u>\$ 7,691,023</u>

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2019

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (3,662,489)
Depreciation	2,586,545
Change in assets and liabilities:	
(Incr)Decr in accounts receivable	(3,070)
(Incr)Decr in other current assets	(34,313)
Incr(Decr) in accounts/warrants payable	(534,803)
Incr(Decr) in customer deposits	16,211
Incr(Decr) in other liabilities	(147,391)
Total Adjustments	<u>1,883,179</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ (1,779,310)</u></u>

SCHEDULE OF NONCASH ACTIVITIES

Amortized Bond Discount	\$ 5,281
Deferred Outflow - Bond Refunding	242,233
Deferred Outflow - Pension	282,397
Deferred Outflow - OPEB	8,105
Deferred Inflow - Bond Premiums	(297,683)
Deferred Inflow - Fiber Maintenance User Chrgs	(10,000)
Deferred Inflow - Pension	<u>(467,145)</u>
TOTAL NONCASH ACTIVITIES	<u><u>\$ (236,812)</u></u>

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Skagit County was incorporated on November 30, 1964, and operates under the laws of the State of Washington applicable to a Port District. The accounting and reporting policies of the Port conform to generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. In November 2006, GASB approved Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations. In June 2012, GASB approved Statement 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. These and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

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

A. Reporting Entity

The Port of Skagit County, a special purpose government, provides a marina, an airport, and industrial parks and is supported primarily through user charges.

An elected three-member board governs the Port. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The component unit discussed below is included in the district's reporting entity.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

B. Basis of Accounting and Presentation

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net position. The reported fund equity (net position) is segregated into invested in capital assets, net of related debt, restricted and unrestricted net position.

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

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in appropriate funds.

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for building and land rentals and moorage. The Port also recognizes as operating revenue other user fees such as: parking, use of shower and laundry facilities and aircraft tie down fees.

Operating expenses for the Port include: maintenance, utilities, salaries/benefits, general and administrative, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Measurement Focus, Basis of Accounting

1. Proprietary Funds

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Port are property rentals and user fees at the Skagit Regional Airport and La Conner Marina. Operating expenses for the district include the cost of sales and services, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

An annual operating budget is adopted for the general fund on the accrual basis of accounting at the fund level. Budgets for debt service and capital projects are adopted at the fund level as well.

Appropriations for the general fund lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

2. Amending the Budget

The finance director is authorized to transfer budgeted amounts between departments or specific budget line items; however, any revisions that alter the total expenditures of the Port, or that affect the number of authorized employee positions or salary ranges must be approved by the Commission.

When the Commission determines that it is in the best interest of the Port to increase or decrease the appropriation for particular departments or budget line items, it may do so by resolution approved by one more than the majority after holding public hearing(s).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

E. Use of Estimates

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

F. Assets, Liabilities and Net position

1. Cash and Investments

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2019, the Port held \$4,368,387 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as current cash and cash equivalents.

For purposes of the Statement of Cash Flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Short Term Investments

Short term investments are those that are held for one year or less. At December 31, 2019, the Port did not hold any short-term investments.

3. Receivables

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

4. Prepaid Expenses

These amounts paid in advance for items of future benefit. The amount reported on the statement of net position primarily consists of prepaid insurance for the Port's property and general liability coverage.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

5. Restricted Assets and Liabilities

These amounts contain resources for construction and/or acquisition of long term assets and debt service. They are reported on the statement of net position as restricted cash and cash equivalents. The current portion of related liabilities are shown as *Current Portion of Long*

Term Obligations and *Payable from Restricted Assets*. Specific debt service reserve requirements are described in Note 9 – Long Term Liabilities.

The restricted assets are composed of the following:

Cash and Investments - Debt Service	\$ 2,128,947
Cash and Investments - Construction/Acquisition	<u>\$ 1,193,689</u>
Total restricted assets	<u>\$ 3,322,636</u>

6. Capital Assets and Depreciation

Capital assets, which include property, facilities, equipment and infrastructure assets, are defined by the Port as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years (See Note 4). Such assets are recorded at acquisition or actual cost if purchased or constructed. Donated capital assets are recorded at historical cost or estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the useful life of the asset. The costs for normal maintenance and repair are not capitalized.

Property, facilities and equipment are depreciated using the straight-line method over estimated useful lives ranging from three to fifty years.

7. Deferred Inflows/Outflows

In 2019, the port recorded deferred inflows of \$10,000 and \$297,683 which are reported on the liabilities section of the Statement of Net Position under *Deferred Inflows*. The \$10,000 Fiber Maintenance deferred inflow resulted from a contractual agreement between the Port of Skagit County and Skagit County requiring payment by Skagit County for future maintenance of the port's fiber system. Revenue will be recognized when expenses are incurred. The \$297,683 is a bond premium to be amortized over the life of the bond obligation.

Under the assets section of the Statement of Net Position, the Port recorded Deferred Outflows of \$5,281 for unamortized bond discounts to be amortized over the life of the bond obligation and \$242,233 for deferred amount on refunding.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

8. Current Liabilities

These accounts include amounts owed for outstanding warrants, payables, interest, taxes and contracts. Also included are the deposits being held by the Port from its customers and the current portion of the Port's long term debt.

9. Long-Term Debt See Note 9.

10. Compensated Absences

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

Vacation pay, which may be accumulated up to a maximum of 37½ days, is payable upon resignation, retirement, or death. Sick leave may accumulate up to 120 days. Fifty percent of outstanding sick leave is payable upon retirement or death.

11. Other Accrued Liabilities

These accounts consist of wage and employee benefit liabilities and leasehold taxes payable.

12. Pensions

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

13. Deferred Inflows/Outflows of Resources

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the Port reports separate sections for these items on the Statement of Net Position. Deferred Outflows represent a consumption of net assets that applies to a future period(s); conversely, deferred inflows represent an acquisition of net assets that applies to a future period(s). As of December 31, 2019, the Port recorded deferred outflows of resources and deferred inflows of resources of \$282,397 and \$467,145, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

The Port invests its cash reserves with the Skagit County Treasurer. The Port generally maintains short-term investments in the State Treasurer's Investment Pool, which are valued at amortized cost. The Port's deposits in the State Treasurer's investment Pool are secured by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPCP). In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance. In addition, the Pool is subject to annual audits by the Washington State Auditor's Office.

The Port has also established direct banking services with Banner Bank (formerly Skagit Bank). Cash maintained in this account, at times, may exceed federally insured limits. Deposits in excess of federal depository insurance coverage are covered by the PDPC.

B. INVESTMENTS

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

<u>Maturities (In Years)</u>				
Investment	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>Total</u>
State Investment Pool	\$3,990,271	\$3,990,271	\$0	\$3,990,271

NOTE 3 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The county treasurer distributes collections at the end of each month to the Port. A revaluation of all property is required every six years.

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

Property taxes are recorded as a receivable when levied, offset by deferred revenue. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. (State law allows for the sale of property for failure to pay taxes.)

NOTE 3 - PROPERTY TAXES - continued

Regular Levy

The Port may levy up to \$ 0.45 per \$1,000 of assessed valuation for general governmental purposes.

- a. Washington state law (RCW 84.55.010) and the Washington state constitution limit the rate.
- b. The Port may also voluntarily levy taxes below the legal limit.

The Port's regular levy for 2019 was \$ 0.1879 per \$1,000 on an assessed valuation of \$12,436,011,617 for a total regular levy of \$2,337,455. The Port's regular levy for 2018 was \$0.2031 per \$1,000 on an assessed valuation of \$11,244,693,251 for a total regular levy of \$2,284,171.

Industrial Development District (IDD) Levy

The Port may levy up to an additional \$ 0.45 per \$1,000 of assessed valuation for industrial development district (IDD) purposes.

- a. Washington state law (RCW53.36.100) and the Washington state constitution limit the rate.
- b. The Port may also voluntarily levy taxes below the legal limit.

The Port's IDD levy for 2019 was \$ 0.1366 per \$1,000 on an assessed valuation of \$12,436,011,617 for a total IDD levy of \$1,700,000. 2019 was the first year of the IDD levy, which may be collected over a period not to exceed 20 years and is capped at an aggregate of \$2.70 times the assessed valuation of the Port in the base year.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

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

		Beginning Balance <u>1/1/2019</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>12/31/2019</u>
Non-Depreciable Assets					
	Land	20,208,438	-	-	20,208,438
	Construction in Progress	<u>2,451,924</u>	<u>5,823,906</u>	<u>5,300,380</u>	<u>2,975,450</u>
	Total Non-Depreciable Assets	22,660,361	5,823,906	5,300,380	23,183,887
Depreciable Assets					
	Buildings and Structures	45,048,675	2,407,091	-	47,455,766
	Improvements	59,983,024	-	-	59,983,024
	Machinery and Equipment	<u>5,056,403</u>	<u>555,816</u>	<u>-</u>	<u>5,612,219</u>
	Total Depreciable Assets	110,088,102	2,962,907	-	113,051,009
Less Accumulated Depreciation:					
	Buildings and Structures	18,441,869	853,293	-	19,295,162
	Improvements	31,333,034	1,405,864		32,738,899
	Machinery and Equipment	<u>2,238,263</u>	<u>327,387</u>	<u>-</u>	<u>2,565,650</u>
	Total Accumulated Depreciation	<u>52,013,167</u>	<u>2,586,545</u>	<u>-</u>	<u>54,599,711</u>
	Total Net Capital Assets	<u>80,735,297</u>	<u>6,200,268</u>	<u>5,300,380</u>	<u>81,635,185</u>

NOTE 5 - CONSTRUCTION IN PROGRESS

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

Project	Spent to Date 12/31/2019
Skagit Fiber Project	\$ 1,110,061
SWIFT Center Ecology Clean Up	114,023
Airport Master Plan Update	442,656
Lot 72 Hangar Development	12,458
Systima Project	254,290
Runway 04-22 Development	7,710
TTM Building Roof Imp/Solar Panels	1,009,787
Westar Lane Power Upgrade	1,550
Marina Binding Site Plan	22,916
TOTAL	\$ 2,975,450

At year-end the Port had no material unfulfilled commitments with contractors.

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At December 31, 2019 there have been no violations of finance related, legal, or contractual provisions.

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (888,444)
Pension assets	\$ -
Deferred outflows of resources	\$ 282,397
Deferred inflows of resources	\$ (467,145)
Pension expense/expenditures	\$ 169,254

NOTE 7 - PENSION PLANS - continued

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

NOTE 7 - PENSION PLANS - continued

Contributions

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

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

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

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

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

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

55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty

NOTE 7 - PENSION PLANS - continued

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

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

Contributions

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

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

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

The Port's actual PERS plan contributions were \$127,666 to PERS Plan 1 and \$182,077 to PERS Plan 2/3 for the year ended December 31, 2019.

NOTE 7 - PENSION PLANS – continued

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS

NOTE 7 - PENSION PLANS – continued

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$860,838	\$687,396	\$536,911
PERS 2/3	\$1,541,958	\$201,048	\$(899,257)

NOTE 7 - PENSION PLANS – continued

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the Port reported a total pension liability of \$888,444 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$687,396
PERS 2/3	\$201,048

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.016083%	0.017876%	0.001793%
PERS 2/3	0.019452%	0.020698%	0.001246%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.43 percent of employer contributions.

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

NOTE 7 - PENSION PLANS – continued**Pension Expense**

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

	Pension Expense
PERS 1	\$115,505
PERS 2/3	\$53,750
TOTAL	\$169,254

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$45,924
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$62,103	\$
TOTAL	\$62,103	\$45,924

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$57,601	\$43,224
Net difference between projected and actual investment earnings on pension plan investments	\$	\$292,644
Changes of assumptions	\$5,148	\$84,353
Changes in proportion and differences between contributions and proportionate share of contributions	\$63,363	\$1,000
Contributions subsequent to the measurement date	\$94,183	\$
TOTAL	\$220,294	\$421,221

NOTE 7 - PENSION PLANS – continued

Total – All PERS Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$57,601	\$43,224
Net difference between projected and actual investment earnings on pension plan investments	\$	\$338,568
Changes of assumptions	\$5,148	\$84,353
Changes in proportion and differences between contributions and proportionate share of contributions	\$63,363	\$1,000
Contributions subsequent to the measurement date	\$156,285	\$
TOTAL	\$282,397	\$467,145

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

Year ended December 31:	PERS 1	PERS 2/3
2020	\$(10,138)	\$(79,262)
2021	\$(24,014)	\$(138,702)
2022	\$(8,570)	\$(55,116)
2023	\$(3,202)	\$(24,156)
2024	\$	\$(6,380)
Thereafter	\$	\$8,507

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

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

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2019:

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$1,197,705
OPEB assets	\$0
Deferred outflows of resources	\$8,105
Deferred inflows of resources	\$0
OPEB expense/expenditures	\$(33,766)

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

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	N/A
Active employees	38
Total	38

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

OPEB Plan Description

The Port of Skagit County provides medical, dental, life, and long-term disability insurance to commissioners and all regular employees who work at least twenty (20) hours per week through the Washington State Public Employees' Benefits Board (PEBB). Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

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

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

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to:

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

Office of the State Actuary
P.O. Box 40914
Olympia, WA 98504-0914

Or it may be downloaded from the Office of the State Actuary website at:
<http://leg.wa.gov/osa/Pages/default.aspx>.

Subsidies

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

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

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

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

Funding Policy

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

Actuarial Methods and Assumptions

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

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

Health Plan Assumptions:

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

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

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

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

Other assumptions include:

Discount Rate¹	
Beginning of Measurement Year	3.87%
End of Measurement Year	3.50%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates²	Initial rate is approximately 7%, trends down to about 5% in 2020.
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

The following presents the total OPEB liability of the Port calculated using a discount rate of 3.50%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% point higher than the current rate. It also shows the total OPEB liability based on a healthcare trend rate of 7%, and 1% lower and 1% higher than the current rate.

Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	\$1,450,559	\$1,197,705	\$999,505
Healthcare Trend	\$972,324	\$1,197,705	\$1,495,801

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS - continued

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

Changes in the Total OPEB Liability

The following table shows the components of the Port's annual OPEB expense for the year, the benefit payments made, and changes in the Port's total OPEB liability as of June 30, 2019. The net OPEB liability of \$1,197,705 is included as a noncurrent liability in the Statement of Net Position.

	Port of Skagit PEBB Plan	
Total OPEB Liability at 06/30/2018		\$1,249,632
Service Cost		\$68,436
Interest		\$50,661
Changes in Experience Data and Assumptions		(\$152,863)
Changes in Benefit Terms		\$0
Benefit Payments		(\$18,161)
Other		\$0
Total OPEB Liability at 06/30/2019		\$1,197,705

The Port of Skagit County used the alternative measurement method, which does not calculate deferred outflows and inflows for anything other than payments subsequent to the measurement date. Payments subsequent to the measurement date of 6/30/19 were \$8,105.

Funded Status and Funding Progress

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. Even if the Port left the PEBB program, the Port would not be able to get the money out of the trust. As of December 31, 2019, the plan was 0% funded.

NOTE 9 - RISK MANAGEMENT

Port of Skagit 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, 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 Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$5,000 of the amount of each claim, while Enduris is responsible for the remaining \$995,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$25,000 of the amount of each claim, while Enduris is responsible for the remaining \$225,000 on a property loss.

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

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

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

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

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

NOTE 10 - LONG-TERM LIABILITIES**GENERAL OBLIGATION BONDS**

The Port issues general obligation bonds to finance capital improvements to the marina, industrial park and the Skagit Regional Airport. The district is also liable for notes that were issued for the purchase of land adjacent to the Skagit Regional Airport.

The long-term portion of general obligation bonds outstanding are as follows:

		Original	Interest		Amount
Date of Issue	Purpose	Amount	Rate	Maturity	Outstanding
3/27/2008	Facilities	1,465,000	4.125 - 4.75%	12/1/2021	175,000
6/25/2012	Facilities	1,300,000	variable	6/1/2017	715,000
6/25/2012	Facilities	1,350,000	3.00%	1/1/2032	810,000
12/27/2012	Marina Imp	2,210,000	3.00 - 4.50%	12/1/2032	2,210,000
12/27/2012	Refunding	2,200,000	1.25 - 3.00%	12/1/2023	795,000
12/27/2012	Acquisition	2,030,000	0.40 - 3.00%	12/1/2023	600,000
4/26/2016	Refunding	2,359,617	1.66%	12/1/2027	2,247,566
7/6/2017	Acquisition	8,105,000	1.61 - 3.9%	12/1/2037	7,145,000
12/4/2018	Refunding	3,200,000	4.30%	12/1/2033	<u>2,820,000</u>
Total General Obligation Bonds					<u>17,517,566</u>

NOTE 10 - LONG-TERM LIABILITIES - continued**NOTES PAYABLE**

On February 28, 2018 the Port signed Notes Payable for the purchase of land adjacent to the Skagit Regional Airport / Bayview Business and Industrial Park. The long term portion of Notes Payable outstanding is as follows, this amount is represented as Notes Payable on the statement of net position:

Date of Issue	Original Amount	Interest Rate	Maturity	Amount
2/28/2018	\$2,794,162	3.50%	2/28/2028	\$2,585,792
2/28/2018	\$730,389	3.50%	2/28/2028	\$548,657
Total Notes Payable				\$3,134,449

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

Year Ending December 31	General Obligation		Notes Payable		Total
	Principal	Interest	Principal	Interest	
2020	\$ 1,401,140	\$ 632,395	\$ 142,115	\$ 112,414	\$ 2,288,064
2021	\$ 1,436,727	\$ 588,031	\$ 147,169	\$ 107,360	\$ 2,279,287
2022	\$ 1,479,618	\$ 546,589	\$ 152,403	\$ 102,125	\$ 2,280,735
2023	\$ 1,518,357	\$ 507,859	\$ 157,824	\$ 96,705	\$ 2,280,745
2024	\$ 1,271,548	\$ 464,836	\$ 163,437	\$ 91,092	\$ 1,990,913
2025-2029	\$ 5,898,816	\$ 1,743,561	\$ 2,513,615	\$ 249,112	\$ 10,405,104
2030-2034	\$ 4,337,500	\$ 761,784	\$ -	\$ -	\$ 5,099,284
2035-2039	\$ 1,575,000	\$ 124,410	\$ -	\$ -	\$ 1,699,410
Totals	\$ 18,918,706	\$ 5,369,465	\$ 3,276,563	\$ 758,808	\$ 28,323,542

The annual interest on the Skagit State Bank Loan of \$1,300,000 is estimated after 2021 because the interest rate is variable and will be adjusted after 6/1/2022. Projected interest rate will increase to 4% (from 3.3%) as a reasonable estimate.

At December 31, 2019, the Port has \$2,128,947 available in sinking funds and reserves as required by bond indentures. This amount is reported on the Port's statement of net position as restricted for the liquidation of long term debt.

NOTE 10 - LONG-TERM LIABILITIES - continued

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

	Beginning			Ending	
	Balance			Balance	Due Within
Description	1/1/2019	Additions	Reductions	12/31/2019	One Year
2008 LTGO B	\$ 725,000	\$ -	\$ 270,000	\$ 455,000	\$ 280,000
2012 Skagit LTGO	\$ 845,000	\$ -	\$ 65,000	\$ 780,000	\$ 65,000
2012 CERB	\$ 945,000	\$ -	\$ 67,500	\$ 877,500	\$ 67,500
2012 LTGO Tax Exempt	\$ 2,210,000	\$ -	\$ -	\$ 2,210,000	\$ -
2012 LTGO Refunding	\$ 1,285,000	\$ -	\$ 240,000	\$ 1,045,000	\$ 250,000
2012 LTGO Taxable	\$ 975,000	\$ -	\$ 185,000	\$ 790,000	\$ 190,000
2016 LTGO Refunding	\$ 2,304,475	\$ -	\$ 28,269	\$ 2,276,206	\$ 28,640
2016 LTGO - LOC	\$ -	\$ -	\$ -	\$ -	\$ -
2017 LTGO Taxable	\$ 7,790,000	\$ -	\$ 320,000	\$ 7,470,000	\$ 325,000
2018 LTGO Refunding	\$ 3,200,000	\$ -	\$ 185,000	\$ 3,015,000	\$ 195,000
2018 Notes Payable	\$ 3,413,797	\$ -	\$ 137,233	\$ 3,276,564	\$ 142,115
Employee Leave Benefits	\$ 261,194	\$ 40,381	\$ -	\$ 301,575	\$ -
Environmental Remediation	\$ 2,236,370	\$ 110,000	\$ 145,705	\$ 2,200,665	\$ -
Net Pension Liability	\$ 1,050,398	\$ -	\$ 161,954	\$ 888,444	\$ -
Net OPEB Liability	\$ 1,249,632	\$ -	\$ 51,927	\$ 1,197,705	\$ -
Total Long-Term Liabilities	\$ 28,490,866	\$ 150,381	\$ 1,857,588	\$ 26,783,659	\$ 1,543,255

NOTE 11 - CONTINGENCIES AND LITIGATION

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

NOTE 12 – RESTRICTED COMPONENT OF NET POSITION

The Port's statement of net position reports \$3,322,636 of restricted component of net position, of which \$2,128,947 is restricted by debt covenants and \$1,193,689 is restricted by bond covenants and other restrictions.

NOTE 13 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 14 – LONG TERM LIABILITY - POLLUTION REMEDIATION OBLIGATIONS

Skagit Regional Airport

A. Nature, Scope, and Source of Pollution Remediation Obligations

The remediation site is located adjacent to Taxiway F near the western edge of the Skagit Regional Airport in Burlington Washington. The area consists of a paved taxiway, a hangar/storage building and nearby undeveloped areas. In 1978, the Port leased the portion of the remediation site, immediately adjacent to the taxiway, to a series of individuals and companies engaged in the crop dusting business. As part of the crop dusting operations, the hangar/storage building was constructed on the site to be used for aircraft parking and material storage, including storage of chemicals used for crop dusting. The chemicals included pesticides, herbicides and fungicides. In 2000, the Port discovered stained soils at the site and began the process of soil and groundwater sampling to determine the extent of site contamination.

In 2004, the Port entered into the Voluntary Cleanup Program with the Department of Ecology. From 2006-2008, the Port conducted an internal remediation investigation/feasibility study and developed it's own cleanup action plan. The Port's internal investigation documented the presence of pesticides and fungicides.

The Port exited the Voluntary Cleanup Program in February 2009 and on April 10, 2009 entered an Agreed Order with the Department of Ecology. The site will be clean up action was completed under a Consent Decree with the Department of Ecology in 2012. Four rounds of compliance monitoring were completed in 2013. Compliance monitoring was performed regularly from 2014 through 2017, and will continue in 2018 and future years.

B. Amount of Estimated Liability

The initial estimated liability recorded in 2008 for implementation of GASB 49 was \$2.8 million. GASB 49 requires estimates of pollution remediation liabilities to be adjusted when benchmarks are met or when new information indicates changes in estimated outlays. Based on expected outlays for cleanup of the remediation site as of 12/31/09, the probability analysis prepared by the Port's engineering firm, estimated the actual costs of clean up to range from \$700,129 to \$2,800,516 for an average of \$1,750,323. The updated estimate reduced the Port's remediation liability in 2009 by \$222,217. As of 12/31/2010, estimated outlays ranged from \$1,668,262 to \$3,574,848 for an average of \$2,621,555. The updated estimate increased the Port's remediation liability in 2010 by \$871,231. As of 12/31/2011, estimated outlays ranged from \$257,000 to \$237,650 for an average of \$247,450. The updated estimate decreased the Port's remediation liability in 2011 by \$1,501,584. As of 2012, estimated outlays ranged from \$62,540 to \$101,100 for an average of \$81,820. As of 12/31/2012, the ending balance of the Port's remediation liability was \$88,043 which is within range of the average, therefore no changes were made to the liability estimate. As of 12/31/13, the port's updated remediation liability estimate ranges from \$71,002 to \$190,292 for an average of \$90,148 for costs associated with ongoing ground water monitoring. As of 12/31/13, the Port's remediation liability ending balance was \$34,630.52 which was adjusted by an additional \$55,517 as a result of current estimates. As of 12/31/14, the

NOTE 14 – LONG TERM LIABILITY - POLLUTION REMEDIATION OBLIGATIONS - continued

Port's remediation liability ending balance was \$15,750 which was adjusted by an additional \$50,294 as a result of current estimates. As of 12/31/15, the Port's remediation liability ending balance was \$39,121 which was adjusted by an additional \$72,819 as a result of current estimates. As of 12/31/2016, the Port's remediation liability was \$88,632 which was adjusted by an additional \$4,965 as a result of current estimates (\$93,597 total estimated liability). As of 12/31/2017, the Port's remediation liability balance was decreased to \$48,480 to reflect current engineer's estimates. As of 12/31/2018, the Port's remediation balance was decreased to \$36,360 to reflect current engineer's estimates. As of 12/31/2019, the Port's remediation balance was decreased to \$0 to reflect the project's completion. In a letter dated June 6, 2019 from State of Washington Department of Ecology issued a Satisfaction of Consent Decree No. 11-2-01536-2 and No Further Action at the Contaminated Site, in which it declared that remedial actions at the Taxiway F cleanup site had been satisfactorily completed, and that no further action was necessary. This action was further confirmed by a Joint Motion to Dismiss Consent Decree dated July 3, 2019 between the Department of Ecology (plaintiff) and the Port (defendant), in which it declared the remedial work completed and a dismissal of the original action, which was filed in Skagit County Superior Court on July 5, 2019 (No. 11-2-01536-2).

C. Methods and Assumptions Used for the Estimate

Not applicable. As of December 31, 2019, the project was deemed completed and the liability was reduced to \$0.

D. Potential for Changes

Not applicable. As of December 31, 2019, the project was deemed completed and the liability was reduced to \$0.

E. Estimated Recoveries

No further recoveries are anticipated on this project.

SWIFT Center

A. Nature, Scope, and Source of Pollution Remediation Obligations

The remediation site is located at the SWIFT Center in Sedro-Woolley, Washington. On June 29, 2018 the Port of Skagit took title to the SWIFT Center, the former Northern State Hospital, from the Washington State Department of Enterprise Services. There is confirmed environmental contamination on the property.

B. Amount of Estimated Liability

The initial estimated liability recorded in 2018 for implementation of GASB 49 was \$2.2 million. GASB 49 requires estimates of pollution remediation liabilities to be adjusted when benchmarks are met or when new information indicates changes in estimated outlays. Based on expected outlays for cleanup of the remediation site as of 12/31/18, the probability analysis prepared by the Port's environmental consultants estimated the actual costs of clean up to range from \$1,341,960 to \$3,058,060 for an average of \$2,200,010, which was the reported liability reported by the Port as of December 31, 2018. Based on expected outlays for cleanup of the

NOTE 14 – LONG TERM LIABILITY - POLLUTION REMEDIATION OBLIGATIONS - continued

remediation site as of 12/31/2019, the probability analysis prepared by the Port's environmental consultants estimated the actual costs of clean up to range from \$1,409,058 to \$3,210,963 for an average of \$2,310,010, minus \$109,345 expenditures to date, leaving a balance of \$2,200,665.

C. Methods and Assumptions Used for the Estimate

The estimated range for the site cleanup is determined from standard industry engineering figures based on estimated quantities and unit costs. The primary variable in determining the construction cost is the suitability of base materials prior to paving the site. The low cost range reflects less base preparation whereas the high range reflects the likely maximum base preparation. The Port's environmental consultant provided probability estimates which were used in calculating the amount of the liability to be recorded in the financial statements.

D. Potential for Changes

With the exception of an additional \$110,000 added to the estimate for legal and oversight activities, no changes in the estimate were made in 2019 as the actual remaining liability in the Port's accounting records closely matched the estimate from the Port's engineering firm.

E. Estimated Recoveries

The Port expects remedial action for this project will be funded by Washington Department of Ecology (DOE) at 90%. DOE has issued a funding notice for \$368,000 at 90%. The Port secured a grant from United States Environmental Protection Agency (EPA) in the amount of \$395,000 for cleanup at the property and continues to work with the Pollution Liability Insurance Agency.

NOTE 15 – OTHER DISCLOSURES

A. Capital Contributions

In 2019 the Port received a total of \$889,023 in capital contributions.

The Port received \$281,635 in capital contributions from the State of Washington Department of Enterprise Services (DES) for costs associated with the transfer of ownership of the former Northern State Hospital site (now referred to as SWIFT Center) from the State to the Port in 2018.

The Port received \$178,000 in capital contributions from the State of Washington Department of Commerce for costs associated with the installation of roof solar panels on a Port-owned building located at 11768 Westar Lane.

The Port received \$2,250 in capital contributions from Cascade Natural Gas Corp. for participation in energy savings program.

The Port received \$160,562 in capital contributions from Skagit County (passed through from SkagitNet LLC) for a countywide broadband network project.

NOTE 15 – OTHER DISCLOSURES - continued

The Port received \$266,576 from the Federal Aviation Administration (FAA) for costs associated with an airport master plan update.

NOTE 16 – LEASES

The Port leases office equipment under an operating lease. The total cost for such leases was \$25,014 for year ended December 31, 2019. The costs under such leases are reported in general and administrative operating expenses on the Statement of Revenues, Expenses and Changes in Net Fund Position.

The future minimum lease payments for these leases are as follows:

2020	\$ 13,804
2021	\$ 11,644
2022	\$ 6,000
2023	\$ 240
Total	\$ 31,688

NOTE 17 – JOINT VENTURES**A. SkagitNet LLC**

In May 2018, the Port, along with Skagit County Public Utility District (PUD), entered into an operating agreement creating SkagitNet LLC. The purpose of the newly formed entity is a partnership between the Port and the PUD to jointly own and operate a network of open access telecommunication services to residents, businesses and public agencies in Skagit County.

SkagitNet LLC is jointly governed by the Port Commission and the PUD Commission.

Net profit or net loss for any fiscal year of SkagitNet, LLC shall be allocated among the members in accordance with their respective percentage interests, using formulas as set forth in the Joint Network Interlocal Operating Agreement of SkagitNet, LLC, dated and effective as of May 16, 2018.

Financial Statements are prepared and submitted to the Washington State Auditor each year. A copy of SkagitNet, LLC may be obtained by contacting:

SkagitNet, LLC
c/o Port of Skagit County
Attn: Finance Department
15400 Airport Drive
Burlington, WA 98233

NOTE 17 – JOINT VENTURES - continued

B. Skagit Council of Governments

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

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

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

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

NOTE 18 – SUBSEQUENT EVENTS

In January 2020, the U.S. Department of Health and Human Services declared a public health emergency for a new strain of coronavirus, COVID-19, a respiratory disease that can result in serious illness or death. In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of this deadly new virus and in March 2020, the World Health Organization declared COVID-19 as a global pandemic. In the weeks following the Governor's declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, closing all non-essential businesses, and mandating that people stay home and stay healthy. On April 14, 2020, the Port Commission passed Resolution No. 20-13, delegating to the Port's Executive Director, explicit and enhanced authority to respond to COVID-19.

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

NOTE 18 – SUBSEQUENT EVENTS - continued

Due to the closures mandated by the Governor, many businesses in the community are experiencing negative financial impacts. Many of the Port's business tenants have made requests for rent relief. On April 14, 2020, the Port Commission approved a temporary rent relief program for the Port's business tenants. Under this program, eligible tenants and licensees can defer up to three months' of rent payments over the subsequent fifteen (15) months following the deferral period with no late fees or penalty charges. While this will affect the timing of the Port's cash flows, this program is not anticipated to negatively impact the Port's overall financial results for 2020 and 2021. However, other revenue streams, primarily those tied to recreation, such as guest moorage, may be affected depending on the length of time the current measures are in place. As such, the full extent of the financial impact to the Port is unknown at this time.

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

NOTE 19 – PRIOR PERIOD ADJUSTMENT

In 2018 the Port capitalized \$1,348,166 in dredging expenditures at the La Conner Marina in a construction in progress account; after filing its 2018 annual financial reports, the Port determined that these expenditures should have been coded as an operating expense in accordance with GASB and State Auditor's recommendation.

Introduction: The Port of Skagit County is providing the following Required Supplemental Information to meet our financial reporting requirements. This information is an integral part of the accompanying financial statements. RSI generally includes schedules, statistical data, and other information.

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	% 0.014686%	0.014428%	0.014607%	0.016083%	0.017876					
Employer's proportionate share of the net pension liability	\$ \$768,214	\$774,852	\$693,114	\$718,272	\$687,396					
TOTAL	\$ \$768,214	\$774,852	\$693,114	\$718,272	\$687,396					
Covered payroll*	\$ 1,684,520	1,749,679	1,849,986	2,006,655	2,445,631					
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 45.60%	44.29%	37.47%	35.79%	28.11%					
Plan fiduciary net position as a percentage of the total pension liability	% 59.10%	57.03%	61.24%	63.22%	67.12%					

Notes to Schedule:

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

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	% 0.018971%	0.018464%	0.018789%	0.019452%	0.020698%					
Employer's proportionate share of the net pension liability	\$ \$677,845	\$929,648	\$652,828	\$332,126	\$201,048					
TOTAL	\$ \$677,845	\$929,648	\$652,828	\$332,126	\$201,048					
Covered payroll*	\$ \$1,684,520	\$1,749,679	\$1,849,986	\$2,006,655	\$2,445,631					
Employer's proportionate share of the net pension liability as a percentage of covered payroll	40.24%	53.13%	35.29%	16.55%	8.22%					
Plan fiduciary net position as a percentage of the total pension liability	% 89.20%	85.82%	90.97%	95.77%	97.77%					

Notes to Schedule:

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

Port of Skagit County
Schedule of Employer Contributions
Public Employees' Retirement System Plan 1
For the year ended December 31,
Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$ 74,852	\$85,945	\$94,034	\$118,360	\$127,666					
Contributions in relation to the statutorily or contractually required contributions*	\$ -\$74,852	-\$85,945	-\$94,034	-\$118,360	-\$127,666					
Contribution deficiency (excess)	\$ -	-	-	-	-					
Covered payroll*	\$ 1,684,520	1,749,679	1,849,986	2,006,655	2,006,655					
Contributions as a percentage of covered payroll	% 4.44%	4.91%	5.08%	5.90%	6.36%					

Notes to Schedule:

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

Port of Skagit County
Schedule of Employer Contributions
Public Employees' Retirement System Plan 2/3
For the year ended December 31,
Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$ 170,950	\$ 112,250	\$ 132,626	\$ 155,927	\$ 182,077					
Contributions in relation to the statutorily or contractually required contributions*	\$ -170,950	-\$112,250	-\$132,626	-\$155,927	-\$182,077					
Contribution deficiency (excess)	\$ -	-	-	-	-					
Covered payroll*	\$ 1,707,516	\$ 1,801,774	\$ 1,925,356	\$ 2,006,655	\$ 2,445,631					
Contributions as a percentage of covered payroll	% 10.01%	6.23%	6.89%	7.77%	7.44%					

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

Port of Skagit County
Schedule of Changes in Total OPEB Liability and Related Ratios
Washington State Public Employees' Benefits Board (PEBB)
For the year ended December 31, 2019
Last 10 Fiscal Years*

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total OPEB liability - beginning		\$ 1,249,632								
Service cost	\$ 1,198,056	\$ 1,249,632								
Interest	82,637	68,436								
Changes in benefit terms	45,849	50,661								
Differences between expected and actual experience										
Changes of assumptions	(76,910)	(152,863)								
Benefit payments		(18,161)								
Other changes										
Total OPEB liability - ending	<u>1,249,632</u>	<u>1,197,705</u>								
Covered-employee payroll**	1,997,316	2,096,035								
Total OPEB liability as a % of covered payroll	62.57%	57.14%								

Notes to Schedule:

* Until a full 10-year trend is compiled, only information for those years available is presented.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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