Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Anacortes

For the period January 1, 2023 through December 31, 2023

Published June 10, 2024

Report No. 1035039

Office of the Washington State Auditor
Pat McCarthy

June 10, 2024

Board of Commissioners
Port of Anacortes
Anacortes, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Port of Anacortes
January 1, 2023 through December 31, 2023

Board of Commissioners
Port of Anacortes
Anacortes, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Anacortes, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated June 4, 2024.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

Pat McCarthy, State Auditor

Olympia, WA

June 4, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Anacortes
January 1, 2023 through December 31, 2023

Board of Commissioners
Port of Anacortes
Anacortes, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Port of Anacortes, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Port of Anacortes, as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2024 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 the effectiveness of the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

June 4, 2024

FINANCIAL SECTION

Port of Anacortes
January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023
Statement of Revenues, Expenses and Changes in Fund Net Position – 2023
Statement of Cash Flows – 2023
Notes to the Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2023
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2023

The following is the Port of Anacortes' (the Port's) Management Discussion and Analysis of financial activities and performance for the fiscal year ended December 31, 2023, with selected comparative information for the year ended December 31, 2022. Please read it in conjunction with the financial statements and notes to the financial statements, which immediately follow this discussion.

Introduction

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

Five elected Commissioners, elected to four-year terms, serve as the governing body of the Port. The Board of Commissioners appoints an Executive Director to manage Port operations, and a Port Auditor (currently the Director of Finance and Administration) to manage the Port's finances.

Operating revenues are generated from four primary business areas: Airport, Marina, Marine Terminal and Properties. The Anacortes Airport, located 2 miles west of downtown Anacortes, serves as a vital link for postal, commercial, recreational and passenger services, primarily to the San Juan Islands. Classified General Aviation by the Federal Aviation Administration (FAA) provided it is a public-use airport that has fewer than 2,500 passenger boardings per year, the Airport is strategically located for emergency services in the case of natural disasters in and around the surrounding areas. Building and property leases, hangar rentals, and fuel sales comprise the majority of Airport revenues. The Airport is the smallest of the Port's operating areas, providing about 4% of the Port's total operating revenues in 2023.

Located in Fidalgo Bay and containing nearly 1,000 boat slips, Cap Sante Marina is one of the Northwest's premier boating destinations as well as home to many local commercial fishermen, tour companies, yacht brokerage firms, and other commercial marine businesses. Proximity to the downtown corridor, exemplary customer service, competitive fuel pricing, and quality amenities result in thousands of visiting boaters throughout the year. Moorage and fuel sales comprise over 92% of the Marina's total revenues. Other Marina activity results from its trailer boat launch and RV Park, which is under redevelopment and expected to re-open in June of 2024. The Marina currently generates the largest gross revenue for the Port, providing 55% of the operating revenue in 2023. The Port currently operates with a total of 38 full-time staff and will increase its labor force by over 20 people during the summer season to provide service to Marina customers and maintain Port facilities.

The Port's Marine Terminal facility consists of three working piers, Pier 1, Pier 2, and Curtis Wharf. Dakota Creek Industries uses Pier 1 for its floating dry dock in support of its shipbuilding and repair operations while M&M Seafood operates a seafood processing area. In addition, Pier 1 houses the Port's historic Transit Shed. Previously used as a community events center and home to the Port's administrative offices, the Port relocated its administrative staff and Commission meeting room chambers to leased office space and began actively marketing the Transit Shed for commercial maritime use in April 2024. Pier 2, the primary use of which is exporting dry bulk cargoes, is the most active part of the Port's Marine Terminal. At 37 ½ feet draft, it is the Port's deepest pier and includes 14 acres of paved asphalt-cement surfacing, a self-contained stormwater management system, a 460-foot concrete cement frontage pier, and a stationary ship loader. Curtis Wharf is a working wharf and dock providing periodic vessel moorage to a range of commercial users, including the American Spirit and American Constellation cruise ships. Curtis Wharf is also home to a seafood processing facility. The Marine Terminal achieves its revenues through cargo shipments, short and long-term lease of dock space, other ground leases and transient dockage revenue from berthing of vessels, barges and tugboats. Currently, the Port's primary bulk product commodities are petroleum coke and prilled sulfur; both of which are by-products of the refining process. The Marine Terminal provided 33% of the Port's operating revenues in 2023.

Properties consists of building and ground leases not associated with the other three operating areas, rental of the Port's Transit Shed (through December 31, 2023) and Seafarers' Memorial Park Building, and revenue and expense related to Port-sponsored events. Approximately 90% of Properties' revenues are determined by already negotiated lease rates with increases set by the consumer price index or by a fixed rate. The remainder of Properties' revenues comes from venue rentals, and sponsorship and ticket sales for Port-sponsored events. Properties revenues accounted for the remaining 8% of the Port's operating revenues in 2023.

Public ports in Washington, such as the Port of Anacortes, are municipal special purpose governments and perform their accounting and financial reporting very much like a private business. As indicated by the description of operations above, they collect revenues from services provided to customers and pay for expenses related to those services. Port authorities in Washington state have also been given legislative authority to collect property tax revenues from property owners within the Port district.

Skagit County levies and collects taxes on behalf of the Port of Anacortes as determined by the Commissioners. These tax revenues are used to support public access improvements/amenities, provide financing for industrial land acquisition and development (including environmental costs) and may service the Port's general obligation debt. While ports may use their tax revenue for operating expenses, the Port of Anacortes does not, instead resolving to be self-sufficient from an operating standpoint and retaining tax funds for expansion opportunities and the ability to remain nimble. The Port collected $1.73 million in property taxes in 2023, as reported in non-operating revenues.

Other non-operating revenue sources include grant revenues and cost recoveries for environmental remediation, gain on sale of Port property, interest income from long-term leases in accordance with GASB No. 87, and investment income. The Port is also often the recipient of Federal and State grant awards to assist in paying for capital improvements. In 2023, the Port reported approximately $708,000 in capital grants.

Non-operating expenses include interest expense on Port debt as well as actual and estimated costs to remediate environmental damage or contamination to Port property. Proactively partnering with Washington state's Department of Ecology and historical operators of the Port's industrial properties, the Port has successfully implemented an aggressive cleanup and redevelopment schedule. Since 2008, the Port has completed over $70 million in remediation efforts at its six recognized environmental sites, and three voluntary mitigation sites. Through successful partnerships mentioned above, and its own historical insurance policies, the Port has been extremely successful in obtaining grant contributions and other recoveries to help offset these expenditures, resulting in minimal out-of-pocket cost. Once remediated, the Port returns these properties to commercial or industrial use, or to public access/enjoyment. From an accounting standpoint, each year the Port prepares an assessment of the potential remediation costs for which it's likely to be held liable. This assessment, per guidance provided in GASB No. 49, is used to determine the estimated liability to be recorded in the Port's financial statements. Adjustments to the liability over time are recognized through non-operating income or expense and can often impact the Port's bottom line significantly depending on changes to the net liability.

<u>2023 Financial Highlights</u>

- The Port implemented GASB No. 96, *Subscription-Based Information Technology Arrangements*, which resulted in recognition of subscription based intangible assets of $175,000 and an outstanding subscription liability of $126,000 as of December 31, 2023.
- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by $65.26 million (reported as total net position). This is an increase of $6.11 million over the prior year.
- The Port received operating revenues totaling $22.02 million, an increase of 7.1% from 2022.
- Operating expenses rose 8% totaling $20.89 million in 2023.
- Net operating income was $1.13 million versus $1.21 million as reported in 2022.
- Net Non-Operating and Environmental activity totaled $4.28 million in 2023, as compared to $2.95 million in 2022.

Overview of the Financial Statements

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

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

The *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position* indicate whether the Port's financial position has improved because of the year's activities. The *Statement of Net Position* provides information on all of the Port's assets, liabilities, and deferred inflows and outflows of resources. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The *Statement of Revenues, Expenses, and Changes in Fund Net Position* shows 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

<u>Condensed Financial Position Information</u>

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

Assets:

- Current assets increased $2.14 million over the prior year, of which $1.1 million was an increase in cash and $992,000 was an increase in accounts receivable and due from others, a result of higher 4th quarter exports in 2023 than 2022, and grant billings associated with the RV Park redevelopment.
- Noncurrent assets, which are primarily comprised of long-term lease receivables decreased $1.23 million over the prior year. No significant lease modifications or new leases were added in 2023. See Note 10 for additional information related to the Port's lessor activities.
- Capital assets, which increased a net of $1.81 million, are discussed in more detail in the Capital Assets and Debt Administration section below.

Liabilities:

- Total liabilities decreased $1.43 million over the prior year. The Port made $1.3 million in principal pay downs of its long-term debt, while incurring no new debt.

Overall, total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by $65.26 million (reported as total net position). This is an increase of $6.11 million over the prior year. The following condensed financial information provides an overview of the Port's financial position for the fiscal years ended December 31:

	2023	**2022**
Current assets	$ 21,477,030	$ 19,332,963
Capital assets, net	65,972,736	64,163,861
Other noncurrent assets	39,621,040	40,846,655
Total Assets	127,070,806	124,343,479
Total Deferred Outflows of Resources	1,142,979	1,289,690
Current liabilities	6,858,941	7,274,266
Noncurrent liabilities	15,604,990	16,615,054
Total Liabilities	22,463,931	23,889,320
Total Deferred Inflows of Resources	40,491,467	42,599,983
Net Position:		
Net invested in capital assets	57,451,147	55,387,606
Restricted	1,311,193	976,911
Unrestricted	6,496,047	2,779,349
Total Net Position	$ 65,258,387	$ 59,143,866

Summary of Operations and Changes in Net Position

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

Revenues:

Total operating revenues increased by $1.46 million, or 7.1%, over 2022 revenues. Marine Terminal activity and rate increases influenced by inflation (and the Consumer Price Index) were the primary contributing factors.

- Airport revenues increased $101,000 or 14.6% over the prior year, primarily due to fuel sales. The Port sold just under 86,000 gallons of AvGas and Jet A fuel in 2023, an increase of about 27% over the prior year.
- The Marina continues to be a sought-after location for both permanent and guest boaters. The waitlist for permanent moorage held over 500 customers at year-end, with demand being greatest for those slips in excess of 40’ in length. Guest boater nights exceeded 19,500 and fuel sales were over 1.2 million gallons, metrics consistent since the pandemic and the increased demand for outdoor recreation. Despite a finite number of slips and activity influenced by seasonality, Marina revenues increased $358,000 or 3% over the prior year, due to moorage rate increases and permanent occupancy extending into the shoulder seasons.
- Marine Terminal revenues were $825,000 or 13% ahead of prior year. The Port reported 304,460 metric tons of pet coke and prilled sulfur exports in 2023, an increase of about 6% over the prior year. While still showing signs of improvement, this annual total is shy of the average 350,000 metric ton pre-pandemic totals.
- The economy experienced some stabilization in the Consumer Price Index (CPI) in 2023. After the nearly unprecedented increases and a high of 9.1% in June 2022, the current year saw national rates fall to more historical rates, ending the year at around 3-3.5%. The CPI is used to calculate annual lease adjustments, and these rates paired with stable occupancy contributed to Properties revenues which were $179,000 or 10.7% ahead of prior year.

Expenses:

- Consistent with the increase in revenues, 2023 operating expenses increased $1.55 million or 8% over 2022 expenses. While some costs are tied directly to revenue streams, such as cost of gas and diesel and longshore labor associated with export volumes, other costs are subject to inflationary measures and/or market pressure, which remained challenging in 2023. No new full-time staff positions were added during the year, however, cost of living adjustments applied to salaries were 10.1%, 6% and 4% for exempt, non-exempt and director positions, respectively. To advance its aggressive capital improvement plans and position itself as leaders in environmental initiatives, the Port renewed contracts with legislative lobbyists and communications/public relations consultants. The Port also responded to an increase in public scrutiny during the year, incurring significant legal expenses leading up to and following the termination of the Executive Director after 8 ½ years in the position. Stabilization of the Port’s property and insurance premiums, a favorable health and welfare benefits renewal process, and reprioritizing preventative repair and maintenance expenses allowed the Port to remain flexible and nimble despite the various challenges.

Non-Operating (including Environmental Activity):

- Non-operating revenue for the year ended December 31, 2023 was $3.55 million, of which, $1.73 million was taxes levied. As stated in the Introduction, property tax funds are not used to support general operations. The 2023 tax levy was approximately $0.17/$1,000 of assessed value, a decrease from the prior year’s $0.19/$1,000 rate as a result of assessed valuation outpacing the 1% statutory allowable increase.
- Other non-operating revenues consisted of interest income from investment and lease activity totaling $1.49 million and a legal settlement of $312,500 related to previous performance of a professional services contract. Information related to the Port’s investments is detailed in Note 2 and information related to leases can be found in Note 10.

- Non-operating expense for the year ended December 31, 2023 was $163,000, consisting primarily of interest expense associated with the Port's two outstanding general obligation bonds (see Note 8).
- Uplands remediation of the Port's Dakota Creek Industries (DCI) site made up the majority of the Port's 2023 environmental expense. Other costs incurred related to post-construction monitoring and investigation/feasibility work on completed and future cleanup sites, respectively. There were no changes in estimated future remediation activities which would have significantly impacted the Port's total remediation liability. Combined with progress on DCI, the impact to the total estimated liability was a net decrease of $1.29 million. This decrease, combined with recoveries from grant billings, cost share agreements, and historical insurance policies resulted in a net income of $894,000 for environmental activities for the year ended December 31, 2003 (see Note 12).

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

	2023	2022
Airport	$ 789,189	$ 688,487
Marina	12,195,919	11,838,244
Marine Terminal	7,182,886	6,358,315
Properties	1,851,962	1,673,117
Total Operating Revenues	22,019,956	20,558,163
General operations	12,237,241	11,210,603
Facilities	1,556,325	1,673,699
General and administrative	4,191,691	3,819,865
Depreciation	2,909,002	2,643,335
Total Operating Expenses	20,894,259	19,347,502
NET OPERATING INCOME	1,125,697	1,210,661
Non-operating revenues	3,549,918	2,759,084
Non-operating expenses	(163,135)	(231,101)
Net environmental activities	893,979	421,047
Total Non-Operating and Environmental	4,280,762	2,949,030
INCOME BEFORE CAPITAL GRANTS	5,406,459	4,159,691
Capital grants	708,062	563,570
INCREASE IN NET POSITION	6,114,521	4,723,261
NET POSITION – BEGINNING OF PERIOD	59,143,866	54,420,605
NET POSITION – END OF PERIOD	$ 65,258,387	$ 59,143,866

Capital Assets and Debt Administration

Capital Assets

The Port's capital assets include land, facilities (structures/buildings), machinery and equipment, construction in progress, and intangible right-to-use lease and subscription assets. The Port's net capital assets as of December 31, 2023 totaled $65.97 million (net of accumulated depreciation and amortization). This is a net increase of $1.81 million over the prior year and results from capital asset purchases and/or progress/completion of capital improvement projects, offset by current year depreciation expense.

The most significant project completed in 2023, was repairs to O, P & Q Docks located in the Marina's north basin. This project, which totaled just over $1.34 million, was undertaken to extend the useful life of O, P & Q docks while the Port undergoes planning and permitting efforts to recapitalize them. Other capital projects, placed in service in 2023, included an additional high speed fuel dispenser at the Marina's fuel dock and pavement improvements to the M-N-O Parking Lot in the Marina's North Basin. The latter of which was completed in conjunction with the RV Park Development and North Basin J-K-L Parking Lot Improvements. This project, expected to total nearly $6 million comprises 63% of the Port's $5.56 million of construction-in-progress at year-end and is slated for opening in June 2024.

Additional information on the Port's capital assets activity and construction commitments may be found in Notes 4 and 5 in the *Notes to the Financial Statements.*

Long-Term Debt

Long-term debt (net of current portion) totaled $5.3 million as of December 31, 2023, consisting of outstanding general obligation bonds, which mature at various dates from 2024-2040. This is a decrease of $1.34 million over the prior year. No new debt was acquired or issued in 2023, and the Port does not have any outstanding revenue bonds, lines of credit or other bank financing.

The current portion of long-term debt, including accrued interest payable, totaled $1.42 million as of year-end.

Additional information on the Port's long-term debt can be found in Note 8 in the *Notes to the Financial Statements*.

Economic Factors and the 2024 Budget

Economic Factors

- In the 1950's, oil companies built two large refineries near town and today, refining remains the largest industry in the area. Two by-products generated as a result of the refining process, petroleum coke and prilled sulfur, are shipped via vessel and barge from the Port's Pier 2 Marine Terminal facility to customers in Canada and the Asian markets, under multi-year pricing agreements. Despite these agreements, the Port's Marine Terminal facility, which also includes Pier 1 and Curtis Wharf, is underutilized. The Port continues to pursue opportunities to diversify its product mix. Originally planned for 2023, and delayed to 2024, improvements on 2nd Street, from O Ave to the shoreline is a key development towards potential new business at Curtis Wharf. The Port is also evaluating modernization options including electrification and shore-to-ship power, and commercial pump-outs. The Port's five-year capital improvement plan includes over $6 million towards these options and hopes to accelerate them with grant funding.

- At the core of the Port's mission is family wage job creation. There are multiple industries located on Port property, with tenants including Washington State Ferries, Dakota Creek Industries, Cortland Company, Transpac Marinas, Rainier Welding, and many others who provide over 1,100 family-wage jobs. Finding the highest and best use of existing Port properties and acquiring new properties are ways in which the Port pursues economic development opportunities.
    - Pursuant a 2021 Port Commission vote to return the warehouse to industrial use, the historic Transit Shed was closed to community events, effective December 31, 2023. With the goal being to secure a long-term anchor tenant for the Transit Shed, providing additional family-wage jobs to Anacortes, the Port's Administrative Offices are being relocated and the building marketed in its entirety in 2024.
    - In 2019, the Port purchased the Rockwell property, zoned Light Manufacturing, next to the Anacortes Airport. Design efforts towards a proposed 30,000 square-foot mixed-use industrial building with up to six loading dock bays are currently underway.
    - With the RV Park Development and improvements to the parking areas in the Marina's North Basin scheduled for completion and re-opening in Spring 2024, the Port has transitioned its focus to the West Basin of the Cap Sante Marina waterfront. The proposed mixed-use development, which is currently undergoing binding site plan approval with the City of Anacortes, would include improved parking amenities, public access upgrades, up to six formalized development or building pads, and enhanced utilities.

- Cap Sante Marina, with approximately 20,000 guest boater nights annually, brings more than $10 million in local spending to Anacortes each year. It also supports commercial fishing and many other marine businesses. T-Dock, a publicly accessible commercial dock located in the Marina, with its two hydraulic lifts, is widely used for loading and unloading fishing boats as well as vessels that support Anacortes' two oil refineries and wider maritime economy. It is the only facility of its type on Fidalgo Island and is used regularly by six local Tribes. An August 2022 economic impact study estimates that T-Dock facilities $14 million commercial activity each year. Built in 1977 and approaching the end of its useful life, the Port intends to replace and upgrade T-Dock with a rectangular, 14,250 square feet dock and is seeking local, state and USDOT (MARAD) funding to complete the project.

- Vital to the Port's ability to complete needed infrastructure improvements, are significant and increasing delays in federal permitting processes. To combat these challenges, the Port, in cooperation with the Northwest Seaport Alliance, the Washington Public Ports Association, and seven other member ports, entered into an interlocal agreement to fund a dedicated liaison to expedite applicable federal permit reviews and consultations. While the position will build a general relationship with the various permitting agencies, the liaison will also provide project-specific assistance and consultation as directed by the members of the group.

- The Port continues to manage its environmental remediation obligations via grant funds in cooperation with the Washington State Department of Ecology (DOE). Critical to the ongoing success of the environmental program is the funding of clean-up activities by the Model Toxics Control Act (MTCA), which is funded through several different mechanisms, including a tax assessed on hazardous materials. DOE recognizes the Port's success executing its environmental remediation program, and despite limiting resources, continues to provide the Port with necessary awards to advance Port projects each biennium. The Port has over $12 million in grant awards, guaranteed through June 30, 2025. MTCA funding remains a legislative priority for the Port.

2024 Budget

The 2024 budget reflects total operating revenues of $20.6 million. This is an increase of approximately 11% from the 2023 adopted budget, but a decrease of 6.4% from 2023 actual results. The 2024 budget was prepared in the fall and adopted in November of 2023, when bulk product exports seemed to be off the forecast pace. A strong 4th quarter resulted in bulk product exports exceeding 300,000 metric tons for the first time since before the pandemic but were not anticipated for 2023 or 2024. Along these same lines of conservatism, the Port has forecast RV Park revenue at reduced occupancy to allow for delays in reopening following redevelopment, and no new lease income despite plans to market the Transit Shed for commercial/industrial use.

In terms of expenses, the 2024 budget projects operations spending (including depreciation) of $21.04 million, a 13% increase over the 2023 adopted budget, and consistent with actual spending in 2023. After a couple years of steep and rapid inflation, the Port is seeing stabilization in some of its larger expense categories such as health and welfare benefits and property and liability insurance premiums. Additionally, the focus has shifted from deferred repair and maintenance to larger capital projects.

The Commission again levied property taxes at the maximum allowable in 2024 to give the Port the ability to remain nimble as opportunities arise and provide funds for projects that meet the Commission's intent for use of tax funds. Recent property acquisitions and environmental remediation efforts provide opportunities for increased property lease and marine terminal business. This, along with sufficient debt capacity, is contributing to positive future cash flow projections and an aggressive five-year capital improvement plan that contemplates over $57 million in projects across all operating areas at the Port. The 2024 capital budget, in particular, totals $16.64 million, and while focused on advancing exciting new development opportunities, also includes a significant re-roofing project to maintain critical infrastructure. The Port anticipates approximately $5-$6 million in external debt financing in 2024 to fund elements of its capital program.

Of note, after budget adoption, the Port Commission approved a five-year office lease with options to extend for two additional years, to relocate administrative staff from their current location at the Transit Shed. Additionally, the Port's Executive Director was terminated after 8 ½ years in the position. The Director of Operations was appointed Interim Executive Director, with a new hire anticipated by June 2024. Costs associated with these developments were not incorporated into the budget and will be monitored along with revenue projections.

Requests for Information

The Port of Anacortes designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional financial information, please visit our website at www.portofanacortes.com or contact Jill Brownfield, Director of Finance and Administration, 317 Commercial Ave, Anacortes, WA 98221 or via phone at 360-293-3134.

PORT OF ANACORTES
STATEMENT OF NET POSITION
December 31, 2023

ASSETS		
Current Assets		
Cash and cash equivalents	$	16,580,700
Other Current Assets		
Taxes receivable		20,719
Accounts receivable (net of allowance for uncollectible)		1,996,573
Interest receivable		62,459
Due from others		721,519
Fuel inventory		168,873
Prepaid expenses		435,503
Current portion of lease receivable		1,376,180
Current portion of environmental remediation		114,504
Total Other Current Assets		4,896,330
Total Current Assets		21,477,030
Noncurrent Assets		
Capital Assets Not Being Depreciated		
Land		22,576,946
Construction in progress		5,562,964
Total Capital Assets Not Being Depreciated		28,139,910
Capital Assets Being Depreciated/Amortized		
Facilities		85,587,227
Equipment		5,197,049
Intangible right-to-use lease assets		138,218
Intangible right-to-use subscription assets		175,230
Total Capital Assets Being Depreciated/Amortized		91,097,724
Accumulated depreciation and amortization		(53,264,898)
Total Net Capital Assets		65,972,736
Other Noncurrent Assets		
Net pension asset		1,031,106
Lease receivable		38,373,060
Environmental remediation		216,874
Total Other Noncurrent Assets		39,621,040
TOTAL ASSETS	**$**	**127,070,806**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding		16,077
Deferred outflows – pensions		832,955
Deferred outflows – asset retirement obligation		293,947
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**1,142,979**

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

PORT OF ANACORTES
STATEMENT OF NET POSITION
December 31, 2023

LIABILITIES		
Current Liabilities		
Warrants payable	$	709,435
Accounts payable		2,963,799
Accrued liabilities		874,839
Unearned income		231,880
Interest payable		77,249
Current portion of long-term debt		1,340,000
Current portion of lease liability		20,287
Current portion of subscription liability		44,435
Current portion of environmental remediation		597,017
Total Current Liabilities		6,858,941
Noncurrent Liabilities		
General obligation bonds		5,295,000
Net pension liability		444,265
Asset retirement obligation		568,232
Lease liability		78,997
Subscription liability		81,363
Environmental remediation		9,137,133
Total Noncurrent Liabilities		15,604,990
TOTAL LIABILITIES	**$**	**22,463,931**
DEFERRED INFLOWS OF RESOURCES		
Bond premiums		736,465
Deferred inflows – pensions		547,951
Deferred inflows – leases		39,207,051
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**40,491,467**
NET POSITION		
Net investment in capital assets		57,451,147
Restricted		1,311,193
Unrestricted		6,496,047
TOTAL NET POSITION	**$**	**65,258,387**

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

PORT OF ANACORTES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2023

OPERATING REVENUES		
Airport	$	789,189
Marina		12,195,919
Marine Terminal		7,182,886
Properties		1,851,962
Total Operating Revenues		22,019,956
OPERATING EXPENSES		
General operations		12,237,241
Facilities		1,556,325
General and administrative		4,191,691
Depreciation		2,909,002
Total Operating Expenses		20,894,259
NET OPERATING INCOME	**$**	**1,125,697**
NON-OPERATING REVENUES		
Taxes levied		1,728,746
Interest income from investment activity		733,340
Interest income from leasing activity		759,317
Miscellaneous taxes		8,088
Legal settlement		312,500
Gain on disposal of fixed assets		460
Other income		7,467
Total Non-Operating Revenues		3,549,918
NON-OPERATING EXPENSES		
Interest expense		(145,784)
Other expense		(17,351)
Total Non-Operating Expenses		(163,135)
ENVIRONMENTAL ACTIVITY		
Environmental recoveries		499,614
Environmental remediation expense		(891,170)
Environmental remediation costs previously accrued		1,285,535
Total Environmental Activity		893,979
NET INCOME BEFORE CAPITAL GRANTS	**$**	**5,406,459**
Capital grants		708,062
INCREASE IN NET POSITION		**6,114,521**
NET POSITION – BEGINNING OF PERIOD		**59,143,866**
NET POSITION – END OF PERIOD	**$**	**65,258,387**

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

PORT OF ANACORTES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	21,011,960
Payments to suppliers		(12,444,368)
Payments to employees		(5,388,326)
Operating grants received		70,413
Net cash provided by operating activities		3,249,679
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments for environmental expenses		(845,944)
Receipts from environmental recoveries		537,398
Net cash provided by other non-operating income		311,624
Net cash provided by noncapital financing activities		3,078
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on general obligation bonds		(1,300,000)
Interest paid on general obligation bonds		(281,050)
Purchases of capital assets		(3,995,032)
Interest paid on lease assets		(1,184)
Interest paid on subscription assets		(852)
Cash received from property taxes		1,731,872
Interest received on lease agreements		769,663
Cash received from capital grants and due from other agencies		187,204
Net cash used by capital and related financing activities		(2,889,379)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net interest earned on investments		717,033
Net cash provided by investing activities		717,033
Net increase in cash and cash equivalents	**$**	**1,080,411**
CASH AND CASH EQUIVALENTS		
Beginning of year		15,500,289
End of year		16,580,700
Increase in cash and cash equivalents	**$**	**1,080,411**
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	$	1,125,697
Adjustments and changes in assets and liabilities:		
Depreciation		2,909,002
Asset retirement amortization		19,597
Pensions		(460,926)
Leases and subscriptions		(426,922)
Increase in accounts receivable		(508,931)
Increase in inventory and prepaid expenses		(32,188)
Increase in accounts payable & other current liabilities		624,350
Total adjustments and changes		2,123,982
Net cash provided by operating activities	$	3,249,679

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

The Commission governs the IDC. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements and there were no tax-exempt non-recourse revenue bonds outstanding as of December 31, 2023.

B. Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting, and Reporting System for GAAP* in the State of Washington. Funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position (or balance sheets). Their reported fund position is segregated into net investment in capital assets, restricted, and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

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

C. Use of Estimates

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

D. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

   It is the Port's policy to invest all temporary cash surpluses. At December 31, 2023, cash on hand and short-term residual investments of surplus cash were $16,580,700. This amount is classified on the Statement of Net Position as cash and cash equivalents.

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

2. Investments – See Note 2, Deposits and Investments

3. Receivables

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

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established for these items. Allowance for uncollectible amounts consists of the estimated amounts of customer accounts, notes and contracts that will never be collected. Estimated uncollectible amounts for trade receivables are $15,982 as of December 31, 2023.

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

5. Fuel Inventory
   Reported fuel inventory is non-ethanol gasoline, diesel fuel, aviation gasoline, and jet fuel held at the Port's marina fuel dock and airport fuel island as of December 31, 2023. Inventory has been valued based on the First In First Out (FIFO) method of accounting, which approximates fair market value.

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

7. Capital Assets and Depreciation – See Note 4, Capital Assets and Depreciation
   Capital assets include land, buildings, equipment, improvements, and intangible assets. Capital assets are defined by the Port as assets with an initial, individual cost in excess of $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, where historical cost is not known. Donated capital assets are recorded at acquisition value at the date of donation.

   Costs for additions or improvements are capitalized when they increase the effectiveness or efficiency of the asset. The cost for normal maintenance and repairs are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

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

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

Vacation pay, which may be accumulated up to a 24-month accrual, is payable upon separation of employment or death. Sick leave may accumulate up to 960 hours. Upon separation without cause and a minimum of ten years of service, employees are paid for accumulated sick leave at 50% of their final balance, but not more than 480 hours. At December 31, 2023, the recorded liability for unpaid vacation and sick leave was $405,865 and is included in the Statement of Net Position under Accrued Liabilities.

9. Unearned Income
At December 31, 2023, the Port held $231,880 in Unearned Income. This amount represents prepayment of rent and will be recognized as revenue in 2024.

10. Long-Term Debt – See Note 8, Long-Term Debt

11. Leases (Port as Lessor) – See Note 10, Leases
Leases are contracts that convey control of a right to use the Port's land, buildings, or portions of buildings over a period of time that exceeds one year. For leases with a maximum possible term of 12 months or less at commencement, or with an initial, individual value of $5,000 or less, revenue is recognized based on the provisions of the lease contract. For all other leases, the Port recognizes a lease receivable and a deferred inflow when the lease commences.

At lease commencement, the lease receivable is initially measured at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, plus lease payments made at or before the lease commencement date, less any lease incentives paid to, or on behalf of, the lessee at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as lease revenue using the straight-line method over the lease term.

Key estimates and judgments include how the Port determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- The Port uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The Port monitors changes in circumstances that may require remeasurement of a lease receivable. When certain changes occur that are expected to significantly affect the amount of the lease, the receivable is remeasured, and a corresponding adjustment is made to the deferred inflow of resources.

12. Leases (Port as Lessee) – See Note 10, Leases
Leases are contracts that convey control of a right to use an asset over a period of time that exceeds one year. For leases with a maximum possible term of 12 months or less at commencement, or with an initial, individual value of $5,000 or less, expenses are recognized based on the provisions of the lease contract. For all other leases, the Port

recognizes an intangible right-to-use lease asset and a lease liability when the lease commences.

At lease commencement, the Port initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The intangible right-to-use lease asset is initially measured at the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized monthly using the straight-line method over the lease term.

Key estimates and judgments include how the Port determines (1) the discount rate used to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- The Port uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Port generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Port is reasonably certain to exercise.

The Port monitors changes in circumstances that may require remeasurement of a lease liability. When certain changes occur that are expected to significantly affect the amount of the lease, the lease liability is remeasured, and a corresponding adjustment is made to the lease asset.

13. Pensions

For purposes of measuring the net pension liability, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the Port includes the net pension asset and the related deferred outflows and inflows.

14. 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).

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Treasury Function

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

B. Deposits

The Skagit County Treasurer conducts its general banking through accounts established at its primary bank, Key Bank. The Port has also established direct banking services with Banner Bank. The carrying amount of the Port's deposits was $1,839,940, and cash on hand was $1,400 on December 31, 2023.

C. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Port would not be able to recover deposits or will not be able to recover collateral securities that are in possessions of an outside party. The Port's bank deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The FDIC provides protection of Port deposits up to $250,000 with all amounts in excess of $250,000 collateralized through the PDPC pool. The Port has not experienced any losses in its deposit accounts.

D. Investment in the Skagit County Investment Pool (SKIP)

It is the Port's policy to invest all temporary cash surpluses. The Port is a participant in the Skagit County Investment Pool (SKIP), an external investment pool established in 2023 and operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. Investments in the SKIP are reported at amortized cost, which is the same as the value of the pool per share. The SKIP does not impose any restrictions on participant withdrawals.

The SKIP was established to provide county departments as well as eligible government entities within Skagit County a mechanism whereby they may utilize the resources of the County Treasurer to maximize the potential of their surplus funds, in a manner that optimizes safety, liquidity, and return on investment. The SKPI portfolio is a combination of the State Local Government Investment Pool (LGIP) holdings and direct investments in high-quality securities with varying maturities designed to control investment risk and enhance earnings. Pool participants manage their own cash and direct the County Treasurer by written request to deposit or withdraw monies for their investment purposes. The SKIP is designed to provide for withdrawals and contributions by participants as needed.

Investments in the SKIP are subject to the following risks:

- *Interest Rate Risk:* Interest rate risk is the risk the Port may face should interest rate variances affect the fair value of investments.
- *Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Skagit County Treasurer is responsible for managing the SKIP and has adopted formal investment and operating terms and conditions pursuant RCW 36.29.020.

NOTE 2 - DEPOSITS AND INVESTMENTS – *continued*

As of December 31, 2023, the Port's cash and cash equivalents, which includes investments measured at amortized cost, were as follows:

	Amortized Cost			
Investment Type	Maturities	Port's Own Investment	Investments Held by Port as Agent for Others	Total
Skagit County Investment Pool	Less than 1 year	$14,739,360	$ -	$14,739,360
Cash, non-investment		1,841,340	-	1,841,340
Total		$16,580,700	$ -	$16,580,700

NOTE 3 - PROPERTY TAXES

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

Property Tax Calendar:
January 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% of market value
October 31.............Second installment is due

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

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

The Port's regular levy for 2023 was $0.1683 per $1,000 on an assessed valuation of $10,271,663,828 for a total regular levy of $1,728,746. For 2023, the Port collected 99.23% of ad valorem taxes levied.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2023 was as follows:

	Beginning Balance 12/31/2022	Increases	Decreases	Ending Balance 12/31/2023
Capital assets, not being depreciated:				
Land	$ 22,576,946	$ -	$ -	$ 22,576,946
Construction in progress	3,354,205	4,550,143	(2,341,384)	5,562,964
Total capital assets, not being depreciated:	25,931,151	4,550,143	(2,341,384)	28,139,910
Capital assets being depreciated:				
Facilities	83,284,852	2,328,491	(26,116)	85,587,227
Machinery and Equipment	5,201,458	52,641	(57,050)	5,197,049
Intangible right to use lease assets	138,218	-	-	138,218
Intangible right to use subscription assets	-	175,230	-	175,230
Total capital assets being depreciated	88,624,528	2,556,362	(83,166)	91,097,724
Less accumulated depreciation for:				
Facilities	46,213,755	2,716,465	(26,116)	48,904,104
Machinery and Equipment	4,157,936	192,537	(57,050)	4,293,423
Intangible right to use lease assets	20,127	20,127	-	40,254
Intangible right to use subscription assets	-	27,117	-	27,117
Total accumulated depreciation	50,391,818	2,956,246	(83,166)	53,264,898
Total capital assets, being depreciated, net:	$ 38,232,710	$ (399,884)	$ -	$ 37,832,826

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Port has active construction projects as of December 31, 2023. At year-end, the Port's commitments with contractors and consultants on these active construction projects are as follows:

PROJECT	CONTRACT AMOUNT	SPENT TO DATE	REMAINING COMMITMENT
Marina Docks Steel Piling CP System	$ 259,430	$ 7,065	$ 252,365
Dakota Creek Industries Cleanup Action	209,300	154,173	55,127
North Basin Upland Improvements	6,079,609	3,154,204	2,925,405
Totals	$ 6,548,339	$ 3,315,442	$ 3,232,897

NOTE 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2023:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(444,265)
Pension assets	1,031,106
Deferred outflows of resources	832,955
Deferred inflows of resources	(547,951)
Pension expense/expenditures	(112,005)

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR 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 local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% 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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA).

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 6 - PENSION PLANS – *continued*

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January - June		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**
July - August		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Total	**9.39%**	**6.00%**
September - December		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Total	**9.53%**	**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 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. 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. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in their defined contribution portion of their plan.

<u>NOTE 6 - PENSION PLANS</u> – *continued*

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plan 2/3 defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 2/3			
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***	**Employee 3****
January - June			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.85%		
Administrative Fee	0.18%		
Total	**10.39%**	**6.36%**	
July - August			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.85%		
Administrative Fee	0.18%		
Total	**9.39%**	**6.36%**	
July - August			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.97%		
Administrative Fee	0.20%		
Total	**9.53%**	**6.36%**	

* For employees participating in JBM, the contribution rate was 15.90%.
**For employees participating in JBM, the minimum contribution rate was 7.50%.

The Port's actual PERS plan contributions were $123,727 to PERS Plan 1 and $225,193 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions
The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- I**nvestment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR). OSA did make an assumption change to adjust TRS Plan 1 assets, LEOFF Plan ½ assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022 measurement date.

Discount Rate
The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.0% 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 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class
The table below summarizes the 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, 2021. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

NOTE 6 - PENSION PLANS – *continued*

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	100%	

Sensitivity of 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% percent, as well as what the Port's proportionate share of the net pension liability or (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	620,672	444,265	290,304
PERS 2/3	1,121,451	(1,031,106)	(2,799,567)

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, 2023, the Port reported its proportionate share of the net pension liabilities or (assets) as follows:

	Liability or (Asset)
PERS 1	444,265
PERS 2/3	(1,031,106)

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.019407%	0.019462%	0.000055%
PERS 2/3	0.025249%	0.025157%	(0.000092)%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023 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.

NOTE 6 - PENSION PLANS – *continued*

Pension Expense

For the year ended December 31, 2023, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	(2,917)
PERS 2/3	(109,088)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(50,115)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	55,035	-
TOTAL	**$ 55,035**	**$ (50,115)**

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 210,035	$ (11,521)
Net difference between projected and actual investment earnings on pension plan investments	-	(388,583)
Changes of assumptions	432,890	(94,353)
Changes in proportion and differences between contributions and proportionate share of contributions	23,278	(3,379)
Contributions subsequent to the measurement date	111,717	-
TOTAL	**$ 777,920**	**$ (497,836)**

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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NOTE 6 - PENSION PLANS – *continued*

Year ended December 31:	PERS Plan 1	
2024	$	(34,096)
2025	$	(42,880)
2026	$	26,439
2027	$	422
Thereafter		
TOTAL	**$**	**(50,115)**

Year ended December 31:	PERS Plan 2/3	
2024	$	(175,355)
2025	$	(216,452)
2026	$	323,465
2027	$	117,277
2028	$	114,418
Thereafter	$	5,014
TOTAL	**$**	**(168,367)**

NOTE 7 - RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts: damage to, theft of and destruction of assets; natural disasters and pandemics; security breaches; and employee injuries. To limit exposure, the Port purchases property, liability and related insurance coverage annually through a commercial insurance broker which is tailored for the risk management needs of public port authorities and provides coverage against most normal hazards. In comparison to prior years, there were no significant changes in the type of coverage and insurance policies purchased by the Port in 2023. Settlement claims have not exceeded commercial insurance coverage in any of the past three years.

The Port participates in the State of Washington Labor and Industries workman's compensation program. However, management has elected to become self-insured through the Washington State Employment Security Department on a reimbursement basis. Unemployment claims are processed by the Washington State Employment Security Department. No reserve for self-insurance has been established as the potential liability is not considered to be material to the financial statements.

The Port provides medical, vision, dental, life, and long-term disability coverage for full-time employees, commissioners, and their eligible dependents through standard plans. The Port does not administer any of these plans.

NOTE 8 - LONG-TERM DEBT

A. Long-Term Debt

The Port issues general obligation bonds to finance the acquisition or construction of capital assets. Bonded indebtedness has also been entered into in 2012 and 2020 to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources.

Bonds are displayed net of premium or discount on the Statement of Net Position. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt discount and deferred amounts on refunding, if applicable.

B. General Obligation Bonds

The general obligation bonds currently outstanding are as follows:

Issue Name and Purpose	Original Issue	Coupon Rate	Last Date of Maturity	Amount Outstanding
Limited Tax General Obligation Refunding Bonds, 2012 Purpose: Refunding	$ 5,075,000	2.75% - 4.00%	2024	$ 580,000
Limited Tax General Obligation Refunding Bonds, 2020 Purpose: Construction and Refunding	8,185,000	3.00% - 4.00%	2040	6,055,000
Total General Obligation Bonds				**$ 6,635,000**

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

Year Ended December 31,	Principal	Interest
2024	$ 1,340,000	$ 211,183
2025	250,000	172,117
2026	260,000	161,983
2027	270,000	151,450
2028	280,000	140,517
2029-2033	1,580,000	534,700
2034-2038	1,840,000	272,900
2039-2040	815,000	28,750
Total	**$ 6,635,000**	**$ 1,673,600**

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2023, the following changes occurred in long-term liabilities:

	Beginning Balance 12/31/2022	Additions	Reductions	Ending Balance 12/31/2023	Due Within One Year
G.O. bonds payable	$ 7,935,000	-	$ (1,300,000)	$ 6,635,000	$ 1,340,000
Net pension liability	540,362	-	(96,097)	444,265	-
Asset retirement obligation	543,244	24,988	-	568,232	-
Environmental remediation	11,051,441	-	(1,317,291)	9,734,150	597,017
Lease payable	119,382	-	(20,098)	99,284	20,287
Subscription payable	-	125,798	-	125,798	44,435
Total long-term liabilities	**$ 20,189,429**	**$ 150,786**	**$(2,733,486)**	**$ 17,606,729**	**$ 2,001,739**

NOTE 10 - LEASES

A. Lessor Activity

The Port owns land and various industrial and commercial buildings which it leases, in full or in part, to a variety of commercial businesses and tenants. Leases subject to GASB No. 87 have a fixed term that exceed one-year. Therefore, moorage, web storage locker, airport hangar, flex-space, and other month-to-month agreements are not included in the GASB 87 calculations or the discussions below.

Most of the Port's leases begin with an initial term and provide for numerous options to extend, often times at the sole discretion of the lessee. Lease payments, originally negotiated at market rates, are typically adjusted each year upon the anniversary date of the lease execution based on the consumer price index, or other market indexes. While not typical, other variable payments, not included in the measurement of the lease receivable, may include common area maintenance charges or performance based payments, such as additional rent based on minimum gross sales revenues.

NOTE 10 - LEASES – *continued*

As of December 31, 2023, there were 24 qualifying leases in which the Port was the lessor.

Type	Initial Term (in years)	Extension Option Period (in months)	# of Options	Lease End Date
Land	30	120	2	2057
Land	20	120	1	2035
Land	30	120	5	2095
Land	30	120	5	2090
Land	16	120	2	2046
Buildings	40	60	2	2065
Land	30	120	2	2046
Land	10	120	2	2026
Buildings	5	60	2	2034
Land	30	120	4	2079
Land	30	0	0	2049
Buildings	4	60	2	2032
Land	20	120	1	2046
Land	10	60	1	2038
Buildings	15	60	1	2030
Buildings	10	0	0	2031
Land	30	120	1	2036
Land	30	120	2	2058
Buildings	5	60	2	2035
Buildings	5	60	2	2034
Buildings	12	120	3	2054
Buildings	20	120	1	2032
Buildings	5	60	2	2037
Land	20		2	2048

2023 inflows of resources from lease activity were as follows:

Lease revenue	$ 1,666,276
Interest income	759,317
Variable payments	207,776
Total	**$ 2,633,369**

NOTE 10 - LEASES – *continued*

As of December 31, 2023, future lease receivable principal and interest payments are as follows:

Year Ended December 31,	Principal	Interest	Total
2024	$ 1,376,180	$ 738,176	$ 2,114,356
2025	1,399,538	714,817	2,114,355
2026	1,419,608	691,051	2,110,659
2027	1,441,920	666,890	2,108,810
2028	1,466,508	642,302	2,108,810
2029 - 2033	6,081,829	2,859,818	8,941,647
2034 - 2038	4,619,391	2,382,044	7,001,435
2039 - 2043	4,765,382	1,939,296	6,704,678
2044 - 2048	4,649,049	1,465,691	6,114,740
2049 - 2053	2,974,195	1,091,831	4,066,026
2054 - 2058	2,913,812	787,738	3,701,550
2059 - 2063	3,005,506	489,309	3,494,815
2064 - 2068	1,281,869	246,940	1,528,809
2069 - 2073	754,369	176,090	930,459
2074 - 2078	823,160	107,299	930,459
2079 - 2083	316,472	53,547	370,019
2084 - 2088	251,827	31,971	283,798
2089 - 2093	162,742	11,787	174,529
2094 – 2095	45,883	938	46,821
Total	**$ 39,749,240**	**$ 15,097,535**	**$ 54,846,775**

B. Lessee Activity

The Port leases office equipment and an eelgrass mitigation site, which are subject to GASB Statement No. 87 accounting.

The equipment lease, which includes several large printer/copier machines, expires in March 2027 and requires monthly fixed payments of $1,441.39.

The land lease was for an initial term of 30 years and terminates in August 2036. The Port is required to make variable principal and interest payments of $3,986.28, adjusted annually for inflation and every four-years for re-valuation of water-dependent use in accordance with RCW 79.105.200-.360.

NOTE 10 - LEASES – *continued*

Leased asset activity for the year ended December 31, 2023, was as follows:

	Beginning Balance 12/31/2022	Increases	Decreases	Ending Balance 12/31/2023
Leased land	$ 50,701	$ -	$ -	$ 50,701
Leased equipment	87,517	-	-	87,517
Total leased assets:	138,218	-	-	138,218
Less accumulated amortization for:				
Leased land	3,457	3,457	-	6,914
Leased equipment	16,670	16,670	-	33,340
Total accumulated amortization	20,127	20,127	-	40,254
Total leased assets, net:	**$ 118,091**	**$ 20,127**	**$ -**	**$ 97,964**

2023 outflows of resources from lease activity were as follows:

Principal lease payments	$ 20,098
Interest expense	1,184
Variable payments	2,209
Total	**$ 23,491**

As of December 31, 2023, the principal and interest requirements to maturity are as follows:

Year Ended December 31,	Principal	Interest	Total
2024	20,287	996	21,283
2025	20,474	809	21,283
2026	20,663	620	21,283
2027	7,845	465	8,310
2028	3,575	411	3,986
2029-2033	18,625	1,307	19,932
2034-2036	7,815	161	7,976
Total	**$ 99,284**	**$ 4,769**	**$ 104,053**

NOTE 11 - RESTRICTED COMPONENT OF NET POSITION

Net Position is segregated into three components: invested in capital assets, restricted, and unrestricted. Items are categorized as restricted when constraints are externally imposed on their use by contract or agreement, or imposed by law through constitutional provisions or enabling legislation.

As of December 31, 2023, the Port's net position included a restricted component of $1,311,193 which is related to the net pension asset for the PERS Plan 2/3 retirement program (see Note 6 – Pension Plans).

NOTE 12 - POLLUTION REMEDIATION OBLIGATIONS

The Port has identified six contaminated sites on various Port properties that require investigation, and potential remediation, in order to comply with state environmental laws and regulations. As of December 31, 2023, remediation activities at four of these sites is substantially complete. Although the Port may not bear ultimate liability for the contamination at the remaining sites, the Port is presumptively liable as the property owner.

The Port's estimate of its pollution remediation obligations is analyzed by independent environmental consultants annually (using the expected cash flow technique) and has been estimated at $12,852,716 as of December 31, 2023. The Port's historical insurance policy provides unlimited defense and indemnity coverage of $3.5 million, of which $3,118,566 remains. This policy constitutes an unrealizable recovery, which reduces the liability as presented in current and long-term liabilities, totaling $9,734,150. The Port has and will continue to actively pursue cost sharing and cost recovery agreements with current and former tenants, former site operators, the Port's former insurance carriers, the tenants' former insurance carriers and granting agencies. The Port has been extremely successful in negotiating these agreements on the completed sites, and in partnership with the other liable parties and the Washington State Department of Ecology (DOE), has expended minimal out of pocket costs relative to total remediation expenses. As of December 31, 2023, the Port has estimated realizable recoveries from these agreements (not including DOE grant funds) totaling $331,378. The Port estimates $6,375,604 in future expected recoveries that are not yet included on the Statement of Net Position as of December 31, 2023. These amounts consist of estimated future grant reimbursements expected from DOE, and will be recognized as a receivable as the work is performed.

The Port liability will change over time due to changes in cost estimates, changes in technology, and changes in governing laws and regulations. In 2023, the Port recognized a decrease in the accrued net liability in the amount of $1,285,535, primarily due to the substantial completion of remediation activities at the Port's Dakota Creek Industries site. During the fiscal year 2023, the Port recorded recoveries in the amount of $499,614, and expended $891,170 in cleanup activities.

NOTE 13 – ASSET RETIREMENT OBLIGATION

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

Using DOE's permanent closure requirements, internal project management staff prepared the Port's initial estimate of its underground storage tank retirement obligation, utilizing the expected cash flow technique for a series of associated tasks. Key assumptions were no soil contamination, complete site surface pavement restoration, and decommissioning by demolition and disposal. In addition to construction costs, permitting, design and engineering, construction oversight and project administration, and a 10% construction contingency were considered.

As of December 31, 2023, the asset retirement obligation for the Port's four underground storage tanks was $568,232, an increase of 4.6% over 2022 to reflect the effects of inflation on the Port's initial estimate.

NOTE 13 – ASSET RETIREMENT OBLIGATION – *continued*

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

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

NOTE 14 – SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

In March 2020, the GASB Issued Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for SBITAs by governments. The Port implemented GASB No. 96 on January 1, 2023.

SBITAs are contracts that convey control of a right to use another party's information technology (IT) software, alone or in combination with tangible capital assets. For subscriptions with a maximum possible term of 12 months or less at commencement, or with an initial, individual value of $5,000 or less, expenses are recognized based on the provisions of the subscription contract or agreement. For all other SBITAs, the Port recognizes an intangible right-to use subscription asset and a subscription liability when the subscription commences.

At subscription commencement, the Port initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The intangible right-to-use subscription asset is initially measured at the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain capitalizable implementation costs. Subsequently, the subscription asset is amortized monthly using the straight-line method over the subscription term.

Key estimates and judgments include how the Port determines (1) the discount rate used to calculate the present value of the expected subscription payments, (2) subscription term, and (3) subscription payments.

- The Port generally uses its incremental borrowing rate as the discount rate for subscriptions.
- The subscription term includes the non-cancellable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and renewal options that the Port, or subscription vendor, are reasonably certain to exercise. The Port considers factors relevant to its likelihood that it will exercise renewal options, including, but not limited to: changes in technological development, changes in demand for the vendor's IT assets, and the history of exercising options to extend or terminate.

The Port monitors changes in circumstances that may require remeasurement of a subscription liability. When certain changes occur that are expected to significantly affect the amount of the subscription, the subscription liability is remeasured, and a corresponding adjustment is made to the subscription asset.

The Port enters into subscription-based information technology arrangements (SBITAs) for software solutions used to manage all facets of its business and operations. Most of the Port's SBITAs are considered short-term or are excluded from GASB No. 96 accounting due to mutual termination language.

NOTE 14 – SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA) – *continued*

Those that do qualify, often begin with an initial term, and provide for various options to extend. Typically, due to the speed at which technology is developed and advanced, the Port is reasonably certain to exercise renewal options for a period of 3 years or less.

The Port is committed under various SBITAs. At December 31, 2023, the Port has 9 qualifying SBITAs under GASB 96 in which it is acting as a lessee:

Description	Initial Term (in years)	Interest Rate	Payment Frequency	Expiration Date (with extensions)
Password Management Software	3	3.214%	Annual	2026
Accounting Standard Software	3	2.860%	Annual	2026
Telephone Software	5	4.249%	Monthly	2028
Cost Estimation Software	3	3.214%	Annual	2026
Data Management	3	3.510%	Monthly	2026
Network Security Firewall	3	3.214%	Prepaid	2026
Anti-Virus and Cyber Security	3	3.214%	Prepaid	2025
E-mail Spam Filter	3	3.214%	Prepaid	2025
Employment Hiring Software	3	4.394%	Annual	2026

SBITAs asset activities for the year ended December 31, 2023, were as follows:

	Beginning Balance 12/31/2022	Increases	Decreases	Ending Balance 12/31/2023
Subscription assets	$ -	$ 175,230	$ -	$ 175,230
Total subscription assets:	-	175,230	-	175,230
Less accumulated amortization for:				
Subscription asset	-	27,117	-	27,117
Total accumulated amortization	-	27,117	-	27,117
Total leased assets, net:	**$ -**	**$ 148,113**	**$ -**	**$ 148,113**

2023 outflows of resources from SBITAs activities were as follows:

Principal subscription payments	$ 45,432
Interest expense	852
Total	**$ 46,284**

As of December 31, 2023, the principal and interest requirements to maturity are as follows:

Year Ended December 31,	Principal	Interest	Total
2024	$ 44,435	$ 4,126	$ 48,561
2025	46,990	2,571	49,561
2026	18,856	976	19,832
2027	8,725	491	9,216
2028	6,792	121	6,913
Total	**$ 125,798**	**$ 8,285**	**$ 134,083**

NOTE 15 – CONTINGENCIES AND LITIGATION

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

As discussed in Note 8 – Long-Term Debt, the Port is contingently liable for repayment of refunded debt.

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

NOTE 16 – JOINT VENTURES

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

A Board of Directors, composed of elected officials representing the cities of: Anacortes, Burlington, Mount Vernon, and Sedro Woolley; the towns of: Concrete, Hamilton, LaConner, and Lyman; Skagit County, Skagit County Public Utility District, the Port of Anacortes, the Port of Skagit County, Skagit Transit, Swinomish Tribal Community and the Samish Indian Nation, governs SCOG. Annual dues are assessed according to a per capita ratio or through an equitable assessment established by the Board of Directors. In 2023, the Port was assessed annual dues of $11,475.

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, 2023 has not been communicated. Furthermore, based on the SCOG's most recent audited financial statements available on the State Auditor's website, the Port believes the investment to be immaterial to the financial statements.

NOTE 17 – ACCOUNTING AND REPORTING CHANGES

The Port implemented GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, effective January 1, 2023. The implementation required recognition of an intangible subscription asset and a subscription liability. At December 31, 2023, the subscription asset, net of accumulated amortization totaled $148,113 and the subscription liability totaled $125,798.

Introduction

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

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.019462%	0.019407%	0.019475%	0.019048%	0.019056%	0.018114%	0.018188%	0.017568%	0.016440%
Employer's proportionate share of the net pension liability	444,265	540,362	237,835	672,497	732,771	808,977	863,035	943,484	859,965
Covered payroll	3,477,760	3,131,226	2,997,121	2,880,652	2,677,419	2,411,395	2,291,088	2,114,171	1,884,289
Employer's proportionate share of the net pension liability as a percentage of covered payroll	12.77%	17.26%	7.94%	23.35%	27.37%	33.55%	37.67%	44.63%	45.64%
Plan fiduciary net position as a percentage of the total pension liability	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

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

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.025157%	0.025249%	0.025059%	0.024685%	0.024626%	0.023156%	0.023390%	0.022487%	0.021235%
Employer's proportionate share of the net pension liability (asset)	(1,031,106)	(936,430)	(2,496,280)	315,707	239,202	395,368	812,691	1,132,203	758,739
Covered payroll	3,477,760	3,131,226	2,997,121	2,880,652	2,677,419	2,411,395	2,291,088	2,114,171	1,884,289
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-29.65%	-29.91%	-83.29%	10.96%	8.93%	16.40%	35.47%	53.55%	40.27%
Plan fiduciary net position as a percentage of the total pension liability	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

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

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	123,727	123,836	132,002	144,123	136,124	128,496	115,883	105,734	84,102
Contributions in relation to the statutorily or contractually required contributions	123,727	123,836	132,002	144,123	136,124	128,496	115,883	105,734	84,102
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
Covered payroll	3,540,761	3,308,372	3,014,855	3,011,947	2,734,033	2,537,780	2,372,021	2,216,729	1,940,212
Contributions as a percentage of covered payroll	3.49%	3.74%	4.38%	4.79%	4.98%	5.06%	4.89%	4.77%	4.33%

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

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	225,193	210,413	218,817	238,546	210,329	190,568	160,584	138,097	107,712
Contributions in relation to the statutorily or contractually required contributions	225,193	210,413	218,817	238,546	210,329	190,568	160,584	138,097	107,712
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
Covered payroll	3,540,761	3,308,372	3,014,855	3,011,947	2,734,033	2,537,780	2,372,021	2,216,729	1,940,212
Contributions as a percentage of covered payroll	6.36%	6.36%	7.26%	7.92%	7.69%	7.51%	6.77%	6.23%	5.55%

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- Find your audit team
- Request public records
- Search BARS Manuals (GAAP and cash), and find reporting templates
- Learn about our training workshops and on-demand videos
- Discover which governments serve you — enter an address on our map
- Explore public financial data with the Financial Intelligence Tool

Other ways to stay in touch

- Main telephone: (564) 999-0950
- Toll-free Citizen Hotline: (866) 902-3900
- Email: webmaster@sao.wa.gov