



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Friday Harbor

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

Published October 24, 2024

Report No. 1035839



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

October 24, 2024

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Friday Harbor's financial statements and compliance with federal laws and regulations.

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

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Friday Harbor January 1, 2023 through December 31, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Port of Friday Harbor are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Port.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Port’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
20.106	COVID-19 – Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs
20.106	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Port did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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 Friday Harbor January 1, 2023 through December 31, 2023

Board of Commissioners
Port of Friday Harbor
Friday Harbor, 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 Friday Harbor, 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 October 15, 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.

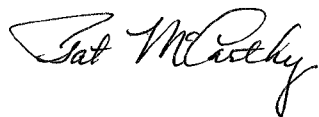
REPORT ON COMPLIANCE AND OTHER MATTERS

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.

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

Pat McCarthy, State Auditor

Olympia, WA

October 15, 2024

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

**Port of Friday Harbor
January 1, 2023 through December 31, 2023**

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Port of Friday Harbor, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2023. The Port's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Port's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Port's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Port's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, 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 Port's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Port's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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 over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

October 15, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Friday Harbor January 1, 2023 through December 31, 2023

Board of Commissioners
Port of Friday Harbor
Friday Harbor, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Port of Friday Harbor, 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 Friday Harbor, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 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.

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

Pat McCarthy, State Auditor

Olympia, WA

October 15, 2024

FINANCIAL SECTION

Port of Friday Harbor 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 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

Notes to Required Supplemental Information – Pension – 2023

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2023

Notes to the Schedule of Expenditures of Federal Awards – 2023

PORT OF FRIDAY HARBOR
Management's Discussion and Analysis
Year Ended December 31, 2023

INTRODUCTION

The following is the Port of Friday Harbor's (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.

The Port is a Special Purpose Municipal Government, created on October 1, 1950, by a vote of the citizens of San Juan Island in San Juan County, Washington. 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 of the citizens of the district.

The Port is administered by a three-member Board of Commissioners elected by Port district voters. The Commissioners, in accordance with the laws of the State of Washington, have appointed an Executive Director to manage the Port's operation, and a Port Auditor to manage the Port's finances.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by \$38,987,886 (reported as total fund net position). Total fund net position increased by \$4,980,002 (14.64%) in comparison with the prior year.
- Total assets increased by \$4,824,063 (8.88%).
- Total liabilities decreased by \$158,415 (1.12%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serve as an introduction to the Port's financial statements. The Port's financial statements include two components: 1) the Port's basic financial statements, and 2) the notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Port's basic financial statements and 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 Fund Net Position* and the *Statement of Revenues, Expenses and Changes in Fund Net Position* indicate whether the Port's financial position has improved as a result of the year's activities. The *Statement of Fund Net Position* provides information on all of the Port's assets, liabilities and deferred inflows and outflows. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is called fund net position. Over time, increases or decreases in fund net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The *Statement of Revenues, Expenses and Changes in Fund Net Position* show how the Port's fund net position

changed during the year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows (accrual basis).

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

FINANCIAL ANALYSIS

Condensed Financial Position Information

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

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

Summary of Statement of Net Position			
	2023		2022
Current and restricted assets	\$ 9,085,087	\$	6,667,024
Capital assets, net	43,409,580		41,223,741
Noncurrent assets	6,668,475		6,448,314
Total Assets	59,163,142		54,339,079
Total Deferred Outflows of Resources	538,689		588,972
Current liabilities	1,151,575		1,027,510
Noncurrent liabilities	12,810,347		13,092,826
Total Liabilities	13,961,922		14,120,336
Total Deferred Inflows of Resources	6,752,023		6,799,831
Net Position			
Net invested in capital assets	30,877,614		28,517,502
Restricted for debt service	442,688		421,802
Restricted for pensions	227,406		442,458
Unrestricted	7,440,178		4,626,122
Total Net Position	\$ 38,987,886	\$	34,007,884

Assets:

- Current and restricted assets reflect an increase of \$2,418,063 (36.27%), primarily a result of an increase in cash and cash equivalents, as well as grants receivable due from other governments.
- Capital assets, net of depreciation increased by \$2,185,839 (5.30%). This increase is a result of large additions that occurred in 2023. The largest additions being the completion of hangar “A” and improvements at Jackson Beach, along with others.
- Noncurrent assets increased by \$220,161 (3.41%) which represents the Ports Net Pension Asset and long-term lease receivables.

Liabilities:

- Current liabilities increased by \$124,065 (12.07%) over 2022, this is primarily related to increases in balances of accounts payable, customer deposits and accrued compensated absences.
- Noncurrent liabilities decreased by \$282,479 (2.16%). This small change resulted from a decrease in the outstanding revenue bond along with a slight decrease in net pension liability, slightly offset by the increase in the asset retirement obligation (ARO) of the Port’s underground storage tanks.

Overall, total assets and deferred outflows of the Port exceeded its liabilities and deferred inflows by \$38,987,886 (reported as total net position). This is an increase of \$4,980,002 (14.64%).

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

Summary of Statement of Revenue, Expenses and Changes in Fund Net Position

	2023	2022
Operating Revenues		
Airport	\$ 228,435	\$ 209,556
Boatyard	208,121	216,387
Marina	4,389,247	3,989,158
Properties	1,219,505	1,064,838
Total Operating Revenues	6,045,309	5,479,939
Operating Expenses		
Operations	2,338,896	2,028,312
Maintenance	1,662,657	1,168,444
General and administrative	567,768	510,481
Depreciation and amortization	2,142,912	2,196,654
Total Operating Expenses	6,712,233	5,903,892
NET OPERATING INCOME (LOSS)	(666,925)	(423,953)
Non-operating revenues	3,802,197	1,330,234
Non-operating expense	(849,184)	(656,817)
Total Non-Operating	2,953,013	673,417
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,286,088	249,464
Capital contributions	2,693,914	116,259
INCREASE IN NET POSITION	4,980,002	365,723
NET POSITION - BEGINNING OF PERIOD	34,007,884	33,648,929
PRIOR PERIOD ADJUSTMENT	-	(6,768)
NET POSITION - END OF PERIOD	\$ 38,987,886	\$ 34,007,884

Revenues:

Total operating revenues increased by approximately \$565,370 (10.32%) over 2022 revenues. This is primarily a result of the following:

- The airport revenues increased by \$18,879 (9.01%) from the previous year, due to the user fees such as auto parking, landing fees and passenger facility fees collected from commercial airline carriers.
- The boatyard revenue decreased by \$8,266 (3.82%). This decrease reflects the boatyard chandlery rental being reclassified as leased properties from the prior year.
- The marina operating revenue represents the Port's Main Marina, Jensen Marina, and Shipyard Cove locations. Revenue increased by \$400,089 (10.03%) over the prior year. The Port's waitlist remains steady and liveaboard availability is at capacity.
- The Ports leased property revenues remained consistent year over year due to the stability of the leasing activity. In 2023 revenue increased by \$154,667 (14.52%) this is primarily due to the full years' rent of A-Hangar, of which tenants had been displaced in 2022. In addition, 2023 fees were increased by Consumer Price Index (CPI) of 9%.

Expenses:

2023 total operating expenses increased by \$808,341 (13.69%) over 2022, including depreciation.

- Operation expenses increased by \$310,584 (15.31%). This increase is a result of additional engineering due to contractor default on an airport project that occurred in December of 2021.
- Maintenance expenses increased by \$494,213 (42.30%) over 2022. This is primarily a result of equipment repairs, disposal of debris, marina docks and piers maintenance and additional staff.
- 2023 general and administrative expenses increased by \$57,287 (11.22%) due to software subscriptions and legal fees.
- Depreciation and amortization expenses decreased by \$53,742 (2.45%)

Non-Operating Revenues:

Non-operating revenue for the year ended December 31, 2023, totaled \$3,802,197 an increase of \$2,471,963 (185.83%).

- The primary increase of non-operating revenue is attributed to insurance and bond surety receipts related to the year 2021 of which Jensen marina collapse and the airport contractor defaulted on their contract. The total amount of the two totaled \$2,311,419.
- Property Taxes collected totaled \$545,000 an increase of \$9,849 (1.84%) from 2022.
- In 2023 the Federal Aviation Administration (FAA) continued support of Covid-19 pandemic recovery grants to assist with airport operations and maintenance. The Port also participates in the Washington State Parks Clean Vessel Program that helps support the sewage disposal in the marina. The total operating and maintenance grants were \$578,937. This amount is a decrease from the prior year in the amount of \$123,826 (17.62%), mostly due to a decrease in airport expenditures that qualify as Covid-19 reimbursement.

Non-Operating Expenses:

Non-operating expenses for the year ended December 31, 2023, were \$849,184 an increase of \$192,367 (29.29%) over 2022. This amount represents bond interest expense, preliminary contamination studies and election expense.

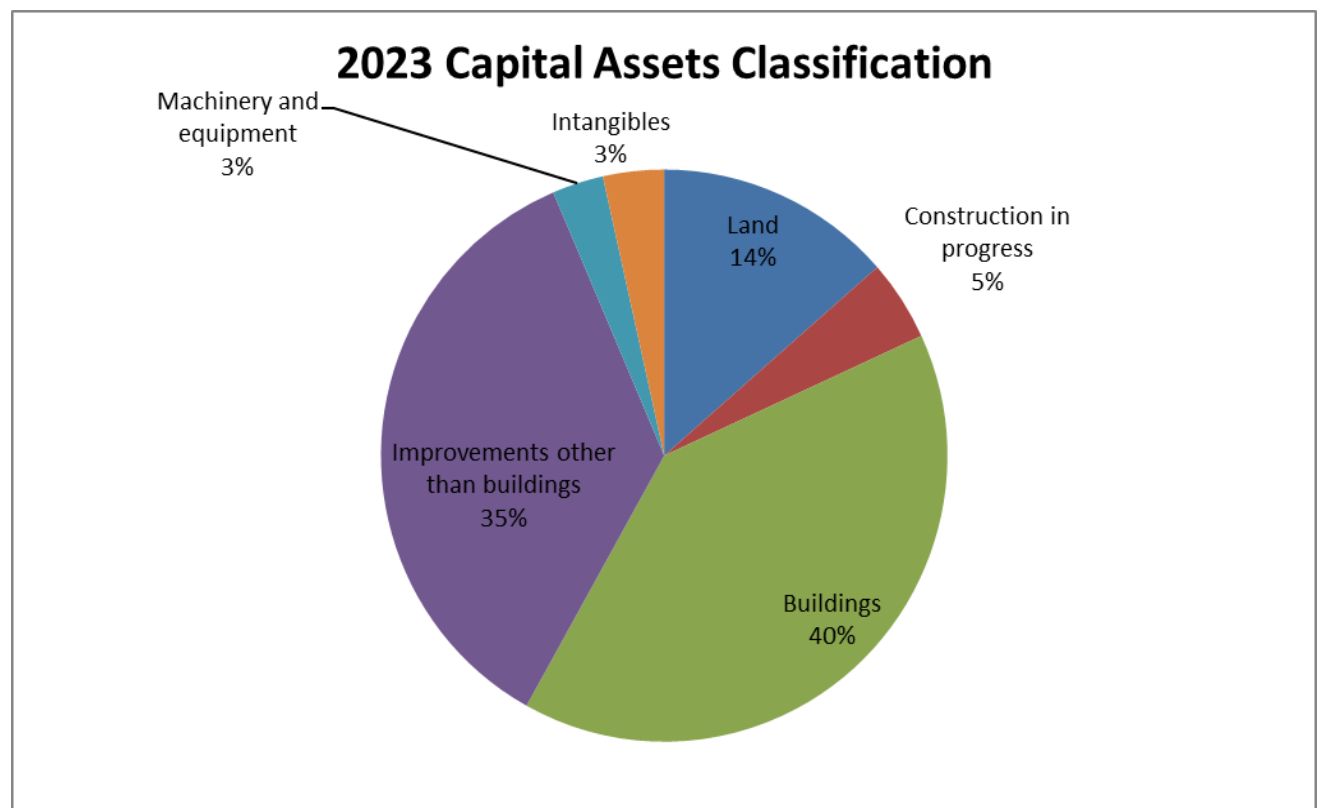
Contributions:

Capital contributions are funding assistance for infrastructure projects and future development. In 2023 the contributions totaled \$2,693,914 an increase of \$2,577,655 (2,217.17%) over 2022. The increase is a result of FAA funded projects stalled for 2022 returning to normal.

Capital Asset and Debt Administration

Capital Assets

The Port's capital assets include land, construction in progress, buildings, machinery and equipment, improvements other than buildings, and intangibles. The Port's capital assets as of December 31, 2023, totaled \$74,930,630. This is a net increase of \$3,880,123 (5.46%) over the prior year.



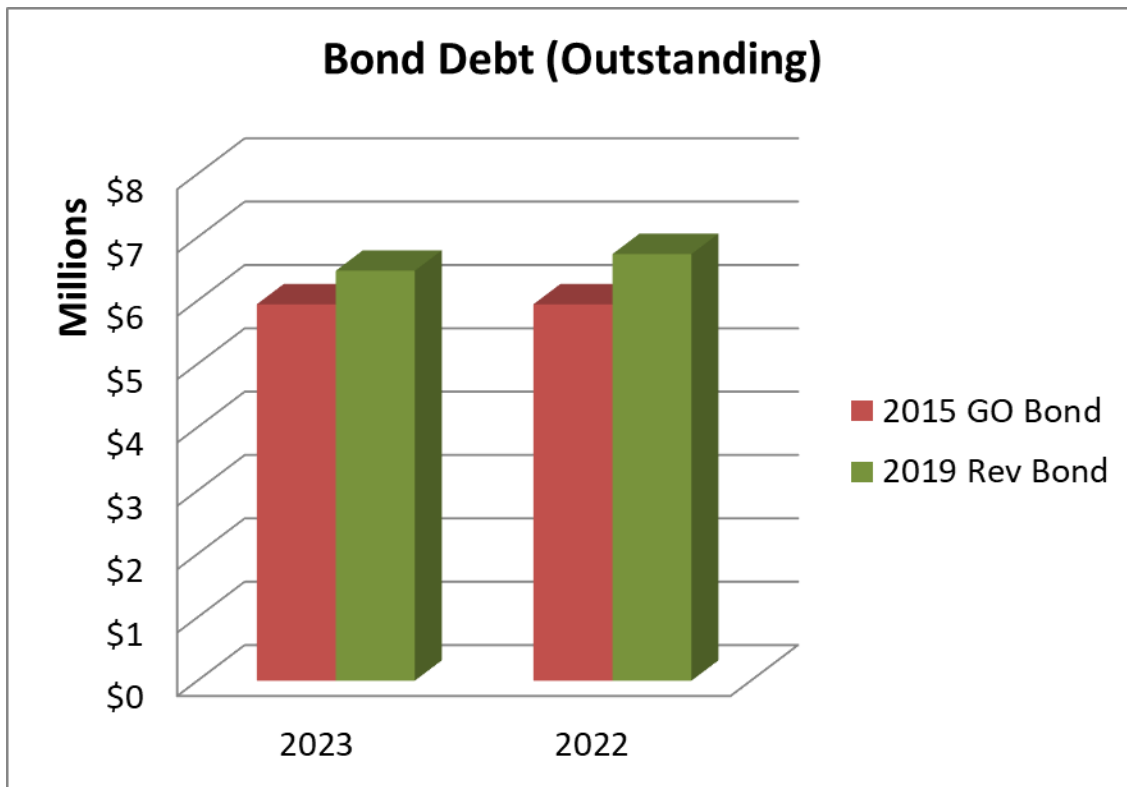
Major capital asset spending during 2023 included the following:

NW Taxilane Construction and Hangar Demo	\$ 1,021,249
Runway 16/34 Drainage Improvements	\$ 702,046
Island Oil Spill Associaton (IOSA) Building	\$ 405,638
Jackson Beach Vault Toilet and Parking Lot Improvements	\$ 375,751
Shipyard Cove Decking	\$ 194,216
Barge Landing Design and Construction	\$ 192,640
Seaplane Base Replacement	\$ 93,252
NW T-Hangars	\$ 82,291
Walkway and Fingers related to the Jensen Collapse	\$ 50,843

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

Debt

The Port has two types of bond debt, general obligation, and revenue bond. As of December 31, 2024, the combined debt totaled \$12,415,026. The total debt decreased by \$263,104 (2.08%).



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

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives.

If you have questions about this report, or if you need additional financial information, please contact Phyllis Johnson, Port Auditor, P. O. Box 889, Friday Harbor Washington 98250, or by phone at 360-378-2688 or www.portfridayharbor.org contact us.

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION
As of December 31, 2023

ASSETS

Current Assets

Cash and cash equivalents (Note 1)	\$ 6,760,416
Cash and cash equivalents restricted (Note 1 and Note 10)	809,472
Accounts receivables (net of allowance for uncollectible)	60,753
Lease receivable - current (Note 1 and Note 11)	302,106
Property taxes receivable (Note 3)	4,298
Due from other governments	969,897
Prepaid expenses	178,145
Total Current Assets	<u>9,085,087</u>

Noncurrent Assets

Capital Assets Not Being Depreciated (Note 4)

Land	10,157,167
Construction in process (Note 4 and Note 5)	3,423,070
Total Capital Assets Not Being Depreciated	<u>13,580,237</u>

Capital Assets, being depreciated (Note 4)

Buildings	29,938,894
Improvements other than buildings	26,606,345
Machinery and equipment	2,198,131
Intangibles	2,607,023
Less: Accumulated depreciation and amortization	(31,521,050)
Total Net Capital Assets	<u>29,829,343</u>

Other Noncurrent Assets

Lease Receivable	6,141,138
Net Pension Assets	527,337
Total Noncurrent Assets	<u>6,668,475</u>

TOTAL ASSETS

\$ 59,163,142

Table continued on next page

PORT OF FRIDAY HARBOR
STATEMENT OF NET POSITION
As of December 31, 2023

DEFERRED OUTFLOWS BY RESOURCES

Deferred outflows related to Pensions (Note 6)	\$ 442,665
Deferred outflows related to Asset Retirement obligations (Note 12)	96,024
Total Deferred Outflows of Resources	\$ 538,689

LIABILITIES

Current Liabilities

Accounts payable	390,347
Customer deposits	366,784
Current portion of long-term debt (Note 8)	267,117
Accrued compensated absences	97,406
Accrued interest payable	29,921
Total Current Liabilities	1,151,575

Noncurrent Liabilities

General obligation bond payable (Note 8)	5,942,543
Revenue bond payable (Note 8)	6,205,366
Net pension liability (Note 6)	227,406
Asset retirement obligation (Note 12)	435,032
Total Noncurrent Liabilities	12,810,347

TOTAL LIABILITIES

\$ 13,961,922

DEFERRED INFLOWS BY RESOURCES

Deferred pension inflows (Note 6)	308,779
Deferred lease inflows (Note 1.D.4)	6,443,244
Total Deferred Inflows of Resources	\$ 6,752,023

NET POSITION

Net investment in capital assets	30,877,614
Restricted for debt service (Note 10)	442,688
Restricted for pensions	527,337
Unrestricted	7,140,247
Total Net Position	\$ 38,987,886

The Notes to the Financial Statements are in integral part of the Statements

PORT OF FRIDAY HAROR
STATEMENT OF REVENUE, EXPENSES & CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2023

OPERATING REVENUES

Airport	\$ 228,435
Boatyard	208,121
Marina	4,389,247
Property lease/ rental	1,219,505
Total Operating Revenues	<u>6,045,308</u>

OPERATING EXPENSES

General operations	2,338,895
Maintenance operations	1,662,657
General and administrative	567,768
Depreciation and amortization	2,142,913
Total Operating Expenses	<u>6,712,233</u>

NET-OPERATING INCOME **(666,925)**

NON-OPERATING REVENUES

Taxes levied for general purpose	545,000
Intergovernmental grants	578,937
Insurance recoveries	2,311,419
Investment income	343,929
Gain on the sale of inventory	17,207
Miscellaneous taxes	3,705
Community donations	2,000
Total Non-Operating Revenues	<u>3,802,197</u>

NON-OPERATING EXPENSES

Interest expense	400,872
Environmental remediation (Note 11)	383,614
Election expense	25,290
Other expenses	39,408
Total Non-Operating Expenses	<u>849,184</u>

INCOME BEFORE CAPITAL CONTRIBUTIONS **2,286,088**

Capital Contributions 2,693,914

INCREASE IN NET POSITION 4,980,002

NET POSITION - BEGINNING OF PERIOD 34,007,884

NET POSITION - END OF PERIOD **\$ 38,987,886**

The Notes to the Financial Statements are in integral part of the Statements

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

CASH FLOW FROM OPERATING ACTIVITIES

Receipts from customers	\$ 6,082,110
Payments to suppliers	(2,143,078)
Payments to employees	(2,679,973)
Insurance recovery	2,311,419
Operating grant receipts	580,937
Sale of inventory	17,207
Other payments	(25,690)
Pollution remediation payments	(383,614)
Net cash provided (used) by operating activities	<u>3,759,318</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from unrestricted taxes	548,638
Proceeds from miscellaneous taxes	3,705
Net cash provided (used) by non-financing activities	<u>552,343</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Receipt of capital grants	1,956,081
Purchase of capital assets	(4,239,919)
Payment of bonds	(263,104)
Interest paid on capital debt	(400,689)
Net cash provided (used) by capital and related financing activities	<u>(2,947,631)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest and dividends	<u>343,929</u>
Net cash provided (used) by investing activities	<u>343,929</u>

Net increase (decrease) in cash and cash equivalents	1,707,959
Beginning cash	5,861,929
Cash and cash equivalents as of December 31	<u>\$ 7,569,888</u>

The Notes to the Financial Statements are in integral part of the Statements

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

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ (666,925)
Adjustments to reconcile operating income (loss):	
Depreciation and amortization	2,142,913
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	18,399
Increase (decrease) in accounts payable	(4,635)
Increase (decrease) in customer deposits	18,403
Decrease (increase) in prepaid items	(30,785)
Increase (decrease) in other payables	17,271
Increase (decrease) in pension accounts	(235,578)
Other items	<u>2,500,255</u>
Total adjustments	4,426,243
Net cash provided (used) by operating activities	<u><u>\$ 3,759,318</u></u>

NONCASH TRANSACTIONS

Accounts payable change in financing capital acquisitions	\$ 88,832
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The Notes to the Financial Statements are in integral part of the Statements

PORT OF FRIDAY HARBOR
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Reporting Entity

The Port of Friday Harbor was incorporated in 1950 and operates under the laws of the state of Washington applicable to a Port district. The Port is a special purpose government providing marinas, an airport, and property lease/rental to the general public. The Port is supported primarily through user charges, property leases, tariffs, and fees. The Port is governed by a three-member elected commission board.

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

B. Basis of Accounting and Reporting

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

The Port's financial statements are reported using the economic resources measurement focus and the full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

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

The Port distinguishes between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are

charges to marina and airport customers, and lease activity. Operating expenses for the Port include general operations, maintenance and administrative, and depreciation. Revenues and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

C. Use of Estimates

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

D. Assets, Liabilities and Fund Net Position

1. Cash and Cash Equivalents

It is the Port of Friday Harbor's policy to invest all temporary cash surpluses. These are classified as cash and cash equivalents on the statement of net position. On December 31, 2023, the Treasurer was holding \$6,760,416 in short term residual investments of surplus cash. For the purposes of the statement of cash flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Investments in the State Investment Pool (LGIP) are classified as cash equivalents on the financial statements.

2. Restricted Assets

This account contains resources for debt service and customer security deposits. In accordance with the 2019 Revenue Bond resolutions, a separate restricted account is required. On December 31, 2023, the Treasurer was holding \$809,472 of restricted assets. Of which \$442,688 was debt service and \$366,784 of customer security deposits.

3. Receivables

Accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Accounts receivable have been recorded net of estimated uncollectible amounts. As of December 31, 2023, the customer accounts receivable was \$60,753.

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

Lease receivable consists of the present value of lease payments expected to be received over lease terms that exceed one year. Lease Receivable - current is the portion that will be received in the upcoming year. Lease receivable – non-current is the portion that will be received more than a year from December 31, 2023, through the end of the lease term. As the Port estimates that all lease receivable amounts will be collected, no estimated uncollectible amounts are established.

4. Leases Receivable and Deferred Inflows of Resources

Leases receivable consist of amounts recorded in compliance with GASB 87, *Leases*. The Port has recorded the Lease Receivable and Deferred Inflows of Resources, both at December 31, 2023 in the amount of \$6,443,244.

At the commencement of a lease, the Port initially measures the lease receivable 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 received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the (straight-line basis/effective interest method).

Key estimates and judgements related to lease's include how the Port determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

The Port monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. See Note 9 for more information.

5. Due from other governments

This account includes amounts due from other governments for grants and entitlements.

6. Prepaid items

Prepaid items consist of amounts that are for service or supplies that are to be consumed into operations over future periods that extend beyond that of the reporting period.

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

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

The Port has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the terms of the agreements involved, the federal and state governments could retain an equity interest in these assets.

When an asset is sold, retired, or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, is removed from the Ports capital asset accounts, accumulated depreciation is charged with accumulated depreciation related

to the asset sold, and the net gain or loss on disposition is credited and charged to income.

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

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 20 years
Other Improvements	10 to 50 years

8. Deferred Outflows/Inflows of Resources

A Deferred Outflows of Resources is a consumption of net position that are applicable to future periods. Deferred Inflow of Resources are acquisitions of net position in one period that are applicable to future periods. These are distinguished from assets and liabilities in the statement of net position. The Port recognizes Deferred Outflows and Deferred Inflows related to pension, lease receivables, and asset retirement obligations.

9. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Port records unpaid vacation leave as an expense and liability when incurred. Vacation pay may be accumulated up to 18 months of accrual and is payable upon separation, retirement, or death. The accrued compensated absences balance on December 31, 2023, was \$97,406.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary fund 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 the purposes of calculating restricted net position related to the net pension asset, the Port includes the net pension asset only.

11. Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as period costs in the year of the bond issuance. See Note 8, *Long-Term Debt*.

12. Asset Retirement Obligation

The asset retirement obligations (ARO) and deferred outflows of resources related is the liability associated with the retirement of Port owned capital assets that have substantial cost to the Port. The obligation will be paid from operating income; no assets have been set aside to fund this obligation. See Note 13 for more information.

As required by GASB 83, Paragraph B49, the Port has adjusted the ARO based on inflation as documented by the US Bureau of Labor Statistics. Additionally, the life expectancy of the wells has been adjusted based on forecasted decommissioning plans.

13. Net Position

Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted is the amount restricted by external creditors, grantors, contributors, or laws and regulations imposed by other governments.

Unrestricted is the amount of all net position that does not meet the definition of “invested in capital assets” or “restricted” net position.

NOTE 2 – DEPOSITS AND INVESTMENTS:

A. Treasury Function:

At the direction of the Port Auditor, the San Juan County Treasurer (the Treasurer) is responsible for execution and administration of the Port’s deposit and investment accounts, based on the Port’s management and investment decisions.

B. Deposits:

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

C. Investment

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

Interest income on investments is recognized in non-operating revenue as earned. Changes in fair value of investment is recognized on the Statement of Revenues, Expenses, and Changes in Net Position.

Investments 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. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port’s Investment Portfolio. Securities within the portfolio are limited to a maturity length of five years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the Investment. This is measured by the assignment of a rating by a nationally recognized statistic rating organization.

Custodial Credit Risk – Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. All security transactions are conducted on a delivery-versus-payment (DVP) basis. This means that payment is made simultaneously with the receipts of the security. These securities are delivered to the Port’s custodial safekeeping bank, Banner Bank. With the exception of the Washington State Local Government Investment Pool, the Port’s investments are registered, or held by the County Treasurer.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Port does not have this type of investment.

D. Investment in Local Government Investment Pool (LGIP)

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

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

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

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

E. Change in Fair Value of Investments

Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. If the Port holds the investments to maturity or call date, there will be no realized loss or gain.

As of December 31, 2023	
Cash and Cash Equivalents	
Cash on Hand	\$ 379,254
LGIP	7,190,634
Total Cash and Cash Equivalents	<u>\$ 7,569,888</u>

NOTE 3 – PROPERTY TAXES:

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 percent of market value
October 31	Second installment is due

The San Juan County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by the 10th day of the month following collection to the Port by the San Juan County Treasurer. A revaluation of all property is required every three years.

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. 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 Port services. The Port's regular levy for 2023 was \$.1033 per \$1,000 on assessed valuation of \$5,248,938,946 for

a total regular tax of \$542,127. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION:

Capital assets include land, buildings, equipment, and improvements. Capital assets are defined by the Port as assets with an initial investment cost of more than \$5,000 and an estimated useful life in excess of 1 year. Donated capital assets are recorded at acquisition value at the date of donation.

Cost for additional improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost for normal maintenance and repairs is not capitalized.

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

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

Description	Beginning Balance 1/1/2023	Increases	Decreases	Ending Balance 12/31/2023
Capital assets, not being depreciated:				
Land	\$ 10,157,167	\$ -	\$ -	\$ 10,157,167
Construction in process	1,504,801	4,170,566	(2,252,297)	3,423,070
Total capital assets, not being depreciated	11,661,968	4,170,566	(2,252,297)	13,580,237
Capital assets being depreciated				
Buildings	28,421,601	1,919,145	(401,852)	29,938,894
Improvements other than buildings	26,160,174	446,171	-	26,606,345
Machinery and equipment	2,199,741	45,166	(46,776)	2,198,131
Intangible assets	2,607,023	-	-	2,607,023
Total capital assets being depreciated	59,388,539	2,410,482	(448,628)	61,350,393
Less accumulated depreciation for :				
Buildings	(10,640,796)	(891,419)	401,852	(11,130,363)
Improvements other than buildings	(16,524,945)	(863,206)	-	(17,388,151)
Machinery and equipment	(1,006,445)	(184,004)	46,776	(1,143,673)
Intangible assets	(1,654,579)	(204,284)	-	(1,858,863)
Total accumulated depreciation	(29,826,765)	(2,142,913)	448,628	(31,521,050)
Total capital assets being depreciated, net	29,561,774	267,569	-	29,829,343
Total capital assets, net	\$ 41,223,742	\$ 4,438,135	\$ (2,252,297)	\$ 43,409,580

NOTE 5 – CONSTRUCTION COMMITMENTS:

The Port of Friday Harbor has active construction projects as of December 31, 2023, construction commitments are as follows:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
Runway 16/34 Drainage Improvements	\$ 702,046	\$ 2,580,000
Jensen Rebuild	2,255,641	2,500,000
Airport SW Development Environmental Assessment	84,532	867,521
Island Oil Spill Association (IOSA) Building	465,721	590,000
	<u>\$ 2,805,894</u>	<u>\$ 3,957,521</u>

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	\$ 227,406
Pension assets	527,337
Deferred outflows of resources	442,665
Deferred inflows of resources	308,779
Pension expense/expenditures	(41,358)

State Sponsored Pension Plans

Substantially all Port 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 the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes: 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 two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. 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.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2023		
PERS Plan 1	6.36%	6.00%
Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	6.00%
July – August 2023		
PERS Plan 1	6.36%	6.00%
Plan 1 UAAL	2.85%	
Administrative Fee	.18%	
Total	9.39%	6.00%
September – December 2023		
PERS Plan 1	6.36%	6.00%
Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Total	9.53%	6.00%

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 the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The 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 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.39%	6.36%
July – August 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	.18%	
Employee Pers Plan 3		Varies
Total	9.39%	6.36%
September - December 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Employee PERS Plan 3		Varies
Total	9.53%	6.36%

The Port's actual PERS plan contributions were \$67,433 to PERS Plan 1 and \$126,787 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 promotions and longevity.
- **Investment 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.

The actuarial results reflect the following changes in assumptions and methods since the last valuation:

Method changes

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR).

Discount Rate

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

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 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0 percent was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) 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

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, 2023 are summarized in the table below. The inflation component used to create the table is 2.20 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
PERS 1	317,703	227,406	148,597
PERS 2/3	573,542	(527,337)	(1,431,778)

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:

Plan	Liability or (Asset)
PERS 1	\$ 227,406
PERS 2/3	(527,337)

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.00917%	0.00996%	0.00079%
PERS 2/3	0.01193%	0.01287%	0.00094%

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.

Pension Expense

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

	Pension Expense
PERS 1	\$ 24,631
PERS 2/3	(65,989)
TOTAL	(41,358)

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 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (25,652)
Contributions subsequent to the measurement date	29,664	-
TOTAL	\$ 29,664	\$ (25,652)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 107,418	\$ (5,892)
Net difference between projected and actual investment earnings on pension plan investments	-	(198,732)
Changes of assumptions	221,394	(48,255)
Changes in proportion and differences between contributions and proportionate share of contributions	19,795	(30,248)
Contributions subsequent to the measurement date	64,394	-
TOTAL	\$ 413,001	\$ (283,127)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 107,418	\$ (5,892)
Net difference between projected and actual investment earnings on pension plan investments	-	(224,384)
Changes of assumptions	221,394	(48,255)
Changes in proportion and differences between contributions and proportionate share of contributions	19,795	(30,248)
Contributions subsequent to the measurement date	94,058	-
TOTAL	\$ 442,665	\$ (308,779)

Deferred outflows of resources related to pensions resulting from the Port 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:

Year ended December 31:	PERS 1	PERS 2/3
2024	\$ (17,453)	\$ (94,959)
2025	(21,949)	(113,377)
2026	13,533	164,816
2027	217	56,985
2028	-	53,716
Thereafter	-	(1,701)

NOTE 7 – RISK MANAGEMENT:

Port of Friday Harbor is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and contract for risk management, claims, and administrative services. The Pool was formed on July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2023, there were 518 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris program provides various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices

liability; Property coverage, which includes Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement policy. Pollution and Cyber coverage are provided on a claims-made coverage form. Crime coverage is provided on a discovery form. All other coverage is provided on an occurrence coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that apply to them. In certain cases, the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits, and member deductibles/copays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence Pool Aggregate	\$500,000 \$1 million	None	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay ⁽³⁾

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.

(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.

(3) Members pay a 20% co-pay of costs. By meeting established guidelines, the co-pay may be waived.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Property ^{(2):}				
Buildings and Contents	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense (EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
Sublimit ^{(5):}				
Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5% of indemnity, subject to a \$250,000 minimum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million per occurrence \$200 million aggregate	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/ Pool aggregate \$1.1 billion/ per occurrence APIP program \$1.4 billion/ APIP program aggregate	\$0
Automobile Physical Damage ⁽⁶⁾	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles; \$250,000 for Emergency Vehicles valued >\$750,000	\$1 billion	\$250 - \$1,000
Crime Blanket ⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position ⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Cyber ⁽⁹⁾	Each Claim APIP Aggregate	\$100,000	\$2 million \$40 million	20% Copay
Identity Fraud Expense Reimbursement ⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Property coverage for each member is based on a detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement according to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$1 billion except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
- (3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
- (4) Business Interruption/ Extra expense coverage is based on scheduled revenue-generating locations/operations. A limited number of members are scheduled, and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
- (5) This sub-limit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
- (6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detailed vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Members may elect to "buy up" the level of coverage from \$5,000 to \$2 million.

- (8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.
- (9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/member's property TIV with an 8-hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.
- (10) Enduris purchases Identity Fraud Expense Reimbursement coverage. Member claims do not have a deductible. There is a \$25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements above the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year.

They must give notice 60 days before renewal to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contributing to Enduris for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Its member participants fully fund Enduris. Members file claims with the Pool, which determines coverage and administers the claims.

The Pool is governed by a Board of Directors comprising seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

NOTE 8 – LONG-TERM DEBT:**Long-term debt**

The Port issues general obligation bonds to finance acquisition and construction of capital assets. Both general obligation and revenue bonds are repaid from revenues.

General Obligation Bonds

The Port's 2015 Limited Tax General Obligation Bond Refunding Bond in the amount of \$6,300,000 has terms of interest only for the first ten years. This bond matures in 2040.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/23
Refund 2014 Tax Exempt General Obligation Bond (2015 GO Bond)	2040	3.25%	\$ 6,300,000	\$ 5,942,543

The General Obligation Bond was structured as interest only payments for the first ten (10) years. This allowed the Port to pay off an earlier Revenue Bond first, which was at a higher interest rate.

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

Year Ending December 31	Principal	Interest
2024	\$ -	\$ 196,352
2025	-	195,815
2026	312,734	195,815
2027	323,039	185,510
2028	333,205	175,344
2029-2033	1,840,330	702,417
2034-2038	2,164,329	378,418
2039-2040	968,906	48,192
Total	\$ 5,942,543	\$ 2,077,863

Revenue bond debt

The Port maintains both a debt service fund and revenue bond restricted reserve fund. The debt service fund is for semi-annual payments due on June 1st and December 1st. The Port also maintains a revenue bond reserve fund. On December 31, 2023, restricted assets contain \$422,688 in reserves as required by bond indentures.

In 2019, the Port issued an additional revenue bond to purchase Shipyard Cove Marina. Revenue from Shipyard Cove marina moorage and building leases along with net revenues of the Port are used to repay the bond.

Purpose	Maturity Range	Interest Rate	Original Amount	Outstanding at 12/31/23
2019 Revenue Bond to acquire, construct, Shipyard Cove Marina and refinance existing note on Jensen's Marina, and make other capital improvements.	2039	3.00%	\$ 7,250,000	\$ 6,472,483

The annual debt service requirements to maturity for revenue bond are as follows:

Year Ending December 31	Principal	Interest
2024	\$ 267,117	\$ 197,411
2025	271,191	188,747
2026	275,326	180,498
2027	279,525	172,123
2028	283,788	164,069
2029-2033	1,485,190	686,316
2034-2038	1,601,944	453,345
2039	2,008,402	61,089
Total	\$ 6,472,483	\$ 2,103,598

Changes in Long-Term Liabilities

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

	Beginning Balance 1/1/2023	Additions	Reductions	Ending Balance 12/31/2023	Due Within One Year
Bond Payable: Refunding 2014 G.O. Bond (2015 G.O. Bond)	\$ 5,942,543	\$ -	\$ -	\$ 5,942,543	\$ -
Bond Payable: 2019 Revenue Bond	\$ 6,735,587	\$ -	\$ (263,104)	\$ 6,472,483	\$ 267,117
Net Pension Liability	\$ 255,438	\$ -	\$ (28,032)	\$ 227,406	\$ -
Compensated Absences	\$ 80,135	\$ 17,271	\$ -	\$ 97,406	\$ 97,406
Asset Retirement Obligation	\$ 422,361	\$ 12,671	\$ -	\$ 435,032	\$ -
Total long-term liabilities	\$ 13,436,064	\$ 29,942	\$ (291,136)	\$ 13,174,870	\$ 364,523

NOTE 9 – LEASES:

In 2022, the Port of Friday Harbor implemented GASB Statement No. 87, Leases. Leases subject to GASB Statement No. 87 have a fixed term that exceeds one year. Therefore, moorage and other month-to-month leases are excluded.

As of December 31, 2023, the Port participated as a lessor in the following lease agreements:

Lease Type	Number of Leases	Term (Years)	Remaining Extensions	Lease Receivable as of 12/31/2023	Rent Increases
Land Lease	1	75	None	\$ 292,002	CPI annually and FMV every 5 years
Land Lease	1	39	None	1,062	CPI annually
Land Lease	2	30	None	140,622	CPI annually
Land Lease	1	30	One 10-Yr term	153,775	CPI annually and FMV every 5 years
Land Lease	1	30	Four 5-Yr terms	153,207	CPI annually and FMV every 5 years
Land Lease	1	25	Five 5-Yr terms	1,287,319	CPI annually and FMV every 5 years
Land Lease	3	25	Three 8-Yr terms	1,226,938	CPI annually and FMV every 5 years
Land Lease	9	25	Three 5-Yr terms	642,351	CPI annually and FMV every 5 years
Land Lease	1	25	None	103,583	CPI annually and FMV every 5 years
Land Lease	4	24	Three 5-Yr terms	116,828	CPI annually and FMV every 5 years
Dock Lease	1	23	One 10-Yr term, One 5-Yr term	25,954	CPI annually
Land Lease	2	10	Three 10-Yr terms	210,246	CPI annually and FMV every 5 years
Building Lease	1	10	Three 10-Yr terms	186,545	CPI annually and FMV every 5 years
Building Lease	1	10	Two 5-Yr terms	331,456	CPI annually and FMV every 5 years
Building Lease	1	10	One 10-Yr term	964,193	CPI annually and FMV every 5 years
Land Lease	1	7	Three 13-Yr terms	238,447	CPI annually and FMV every 5 years
Building Lease	1	5	Three 5-Yr terms	13,955	CPI annually
Dock Lease	1	5	Two 3-Yr terms	262,231	CPI annually and FMV every 5 years
Building Lease	1	5	One 5-Yr term	30,638	CPI annually and FMV every 5 years
Building Lease	1	2	Five 2-Yr terms	50,479	CPI annually and FMV every 5 years
Building Lease	1	1	One 3-Yr term	11,413	CPI annually

On December 31, 2023, the Port has 37 leases in which it is acting as a Lessor. The Port leases land, buildings and improvements with monthly payments ranging from \$84 to \$8,333 per month. Initial terms of the lease agreements range from 3 to 75 years.

As of December 31, 2023, the Port has twenty-four leases that will expire in the next five years. Three marina building leases that are at the end of their lease term and will convert to month-to-month. Seven are building leases that are expected to be renewed. Two are dock leases at the end of their lease period, one of which will establish a new lease, the other is undetermined. We anticipate thirteen airport leases, two of which are land leases and eleven have structures that will establish new leases with the required improvements stated in the Port's lease policy. The length of the lease will depend on the useful life of the structure, most likely 25 years.

The Port's schedule of future payments included in the measurement of the lease receivable is as follows:

Year Ending December 31	Principal	Interest	Total
2024	\$ 302,106	\$ 254,138	\$ 556,245
2025	301,681	241,778	543,459
2026	301,155	229,374	530,529
2027	300,872	217,499	518,371
2028	225,876	206,795	432,671
2029-2033	1,211,393	893,336	2,104,728
2034-2038	816,830	666,719	1,483,549
2039-2043	570,220	544,130	1,114,350
2044-2048	665,823	409,666	1,075,489
2049-2053	580,080	283,235	863,315
2054-2058	423,547	188,460	612,007
2059-2063	366,997	104,605	471,602
2064-2068	312,350	40,323	352,674
2069-2071	64,313	1,771	66,084
Total	\$ 6,443,244	\$ 4,281,829	\$ 10,725,073

NOTE 10 – 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. We continue to monitor the claim situation and maintain legal contact with the insurance company.

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

NOTE 11 – RESTRICTED COMPONENT OF FUND NET POSITION:

The Port has a restricted component of net position in the amount of \$442,688 as required by the 2019 revenue bond resolutions. The Port is required to have six months (6) reserve restricted for debt service. As of 2023, the current restricted reserve meets these requirements. Additionally, the amount related to pensions is the pensions net asset for the PERS 2/3 retirement program, which is \$527,337.

NOTE 12 – POLLUTION REMEDIATION OBLIGATION:

In 2018 the Port of Friday Harbor purchased the Albert Jensen & Sons Shipyard and Marina after a Phase 1 Environmental Site Assessment and review by a Citizen Advisory Board. From 1910 to present time, portions of the property have been used as a working industrial shipyard facility. Based upon the Phase 1 Environmental Site Assessment we suspected the property would have ground and sediment contaminants consistent with the historic shipyard operations.

Following the purchase, we conducted a Phase 2 Environmental Site Assessment and additional planning and analysis through an Ecology Integrated Planning Grant. At this time, we have confirmation of ground and sediment contaminants consistent with historic shipyard operations in the form of a Conceptual Site Model and Data Gaps Analysis. Based on the preliminary soil, groundwater, and sediment sampling information the Department of Ecology has determined that contaminants are present and, as the property owner, the Port is a Potentially Liable Party under the Model Toxics Control Act.

We have negotiated an Agreed Order with Ecology to conduct a Remedial Investigation (RI) and Feasibility Study (FS) to determine the full nature and extents of the contaminants as well as what needs to be done about it and the probable costs. This step does not have a defined scope, schedule or cost at this point and our intent is to conduct the RI and FS with the assistance of an Ecology Model Toxics Control Act grant.

As of December 31, 2023, the RIFS is ongoing, but not completed. Upon completion of the feasibility study, the Port will be able to assign a probable clean-up liability value.

NOTE 13 – ASSET RETIREMENT OBLIGATION:

The Port owns six (6) 10,000-gallon underground storage tanks that were installed in 1983. Four at the marina and two at the airport. The fueling facilities are operated by private businesses. The operators are required to monitor the tanks for leakage. The Port performs annual compliance testing including tank monitor certification, line test, and leak detector test in compliance with Department of Ecology. A galvanic cathodic protection evaluation is done annually as well. All six tanks are insured with a storage tank pollution policy.

The retirement obligation of the six (6) tanks totaled \$435,032. This amount will be reviewed annually to account for the effects of inflation, deflation and to consider any factors significantly affecting the estimate, such as, changes in technology, changes in legal or regulatory requirements, and changes to the type of equipment or services that may be used to decommission the underground storage tanks.

The life of the underground storage tank has an estimated life of 40 years. The tanks are all at the end of their estimated useful life. Upon retirement of the underground storage tanks, the Port will fund the decommissioning out of current reserves. There are no assets restricted for payment of this liability.

The two (2) underground storage tanks at the airport will be decommissioned within the next few years. FAA is providing funds to purchase above ground tanks in the fiscal years 2024-

2025. Upon installation of the above ground airport tanks, the underground tanks will be decommissioned. The four (4) tanks at the marina will remain.

The Port has an active well at the airport that is 240' deep by 6" in diameter. This asset creates an ARO of less than \$5,000 in the event the Port chose to decommission the well. We deem this ARO to be not reasonably estimable since the well right has no end date. The Port intends to certify this well as a Class A water system and intends using it indefinitely.

Port Management Agreement (PMA): The Port has substantial infrastructure in and surrounding the marinas covered by the agreement. The Port has the legal right to continue holding all of these assets in a PMA thus resulting in no trigger of the removal cost obligation. The current agreement ends 12/31/28 with a renegotiation period within 2 years prior. The Port intends to exercise its right to renew the PMA and DNR cannot, and has never, prevented a Washington Port from exercising a PMA renewal. Due to the de facto perpetual nature of the PMA associated with the assets, the Port determines this ARO to not be estimable based on the lack of reasonably estimable end date.

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability (Asset)

PERS 1

As of June 30

Last Ten Fiscal Years

Year Ended	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
June 30,	liability (asset)	(asset)	payroll	payroll	pension liability
2023	0.009962%	\$ 227,406	\$ 1,811,595	12.55%	80.16%
2022	0.009174%	255,438	1,486,675	17.18%	76.56%
2021	0.009178%	112,085	1,423,507	7.87%	88.74%
2020	0.008534%	301,296	1,356,613	22.21%	68.64%
2019	0.007944%	305,475	1,120,861	27.25%	67.12%
2018	0.007770%	347,011	1,077,922	32.19%	63.22%
2017	0.007815%	370,828	985,579	37.63%	61.24%
2016	0.008813%	473,300	1,047,823	45.17%	57.03%
2015	0.008586%	449,128	984,029	45.64%	59.10%
2014	0.009778%	492,571	1,068,197	46.11%	61.19%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability (Asset)
PERS 2/3

As of June 30

Last Ten Fiscal Years

Year Ended	June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2023		0.012866%	\$ (527,337)	\$ 1,811,595	-29.11%	107.02%
2022		0.011930%	(442,458)	1,486,675	-29.76%	106.73%
2021		0.011801%	(1,175,569)	1,423,507	-82.58%	120.29%
2020		0.011061%	141,464	1,356,613	10.43%	97.22%
2019		0.010259%	99,650	1,120,861	8.89%	97.77%
2018		0.010023%	171,134	1,077,922	15.88%	95.77%
2017		0.010054%	349,328	985,579	35.44%	90.97%
2016		0.011308%	569,349	1,047,823	54.34%	85.82%
2015		0.011090%	396,252	984,029	40.27%	89.20%
2014		0.012589%	254,469	1,068,197	23.82%	93.29%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Employer Contributions

PERS 1

As of December 31

Last Ten Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2023	\$ 67,433	\$ (67,433)	\$ -	\$ 1,993,504	3.38%
2022	59,915	(59,915)	-	1,594,477	3.76%
2021	62,606	(62,606)	-	1,457,709	4.29%
2020	61,850	(61,850)	-	1,353,176	4.57%
2019	60,426	(60,426)	-	1,223,817	4.94%
2018	57,714	(57,714)	-	1,139,780	5.06%
2017	48,573	(48,573)	-	990,279	4.90%
2016	50,196	(50,196)	-	1,052,322	4.77%
2015	44,709	(44,709)	-	999,591	4.47%
2014	42,456	(42,456)	-	1,031,282	4.12%

Port of Friday Harbor
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Employer Contributions

PERS 2/3

As of December 31

Last Ten Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2023	\$ 126,787	\$ (126,787)	\$ -	\$ 1,993,504	6.36%
2022	101,409	(101,409)	-	1,594,477	6.36%
2021	104,176	(104,176)	-	1,457,709	7.15%
2020	101,901	(101,901)	-	1,353,176	7.53%
2019	94,579	(94,579)	-	1,223,817	7.73%
2018	85,485	(85,485)	-	1,139,780	7.50%
2017	68,240	(68,240)	-	990,279	6.89%
2016	65,560	(65,560)	-	1,052,322	6.23%
2015	57,428	(57,428)	-	999,591	5.75%
2014	52,526	(52,526)	-	1,031,282	5.09%

Port of Friday Harbor
Notes to Required Supplemental Information - Pension
As of December 31
Last Ten Fiscal Years

Note 1: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 2: Covered payroll

Covered payroll has been presented in accordance with GASB 82, *Pension Issues*. Covered payroll includes all payroll on which a contribution is based.

Note 3: Contribution rates

Rates in effect during the periods covered by the Required Supplemental Information are below:

PERS 1

<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/1/2022	6/30/2023	10.39%
7/1/2023	8/31/2023	9.39%
9/1/2023	current	9.53% *

* Employer contribution rate includes an administrative expense rate of 0.20%

PERS 2/3

<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/1/2022	6/30/2023	10.39%
7/1/2023	8/31/2023	9.39%
9/1/2023	current	9.53% *

* Employer contribution rate includes an administrative expense rate of 0.20%

**Port of Friday Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Parks and Recreation)	Clean Vessel Act	15.616	719-331	43,356	-	43,356	-	1, 2
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Parks and Recreation Commission)	Clean Vessel Act	15.616	CV 921-424	6,688	-	6,688	-	1, 2
Total ALN 15.616:				50,044	-	50,044	-	
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Recreation and Conservation Office)	Sportfishing and Boating Safety Act	15.622	19-1510D	32,031	-	32,031	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106		-	575	575	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106		-	545,861	545,861	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106		-	179,332	179,332	-	1, 2

The accompanying notes are an integral part of this schedule.

**Port of Friday Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Expenditures				Passed through to Subrecipients	Note
			Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	-	-	355,674	355,674	-	1, 2
	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	-	-	631,842	631,842	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	-	-	84,208	84,208	-	1, 2
	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	-	-	71,442	71,442	-	1, 2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	-	-	1,868,934	1,868,934	-	
	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	-	-	1,868,934	1,868,934	-	
Total ALN 20.106:			-	-	1,868,934	1,868,934	-	
Total Federal Awards Expended:			82,075	-	1,868,934	1,951,009	-	

PORT OF FRIDAY HARBOR
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2023

Note 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of account as the Port of Friday Harbor's financial statements. The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Fixed asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate funds.

Note 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port of Friday Harbor's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – INDIRECT COSTS

The Port of Friday Harbor has not elected to use the 10-percent de minimis indirect cost rate allowed by the Uniform Guidance.

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.

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