Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Kingston

For the period January 1, 2022 through December 31, 2023

Published December 26, 2024

Report No. 1036439

Office of the Washington State Auditor
Pat McCarthy

December 26, 2024

Board of Commissioners
Port of Kingston
Kingston, Washington

Report on Financial Statements

Please find attached our report on the Port of Kingston's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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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 Kingston
January 1, 2022 through December 31, 2023

Board of Commissioners
Port of Kingston
Kingston, 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 Kingston, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated December 20, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

December 20, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Kingston
January 1, 2022 through December 31, 2023

Board of Commissioners
Port of Kingston
Kingston, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the Port of Kingston, as of and for the years ended December 31, 2023 and 2022, 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 Kingston, as of December 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 opinions.

Matters of Emphasis

As discussed in Note 11 to the financial statements, in 2022, the Port adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 87, Leases*. Our opinion is not modified with respect to this matter.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, no such opinion is expressed;

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2024 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

December 20, 2024

FINANCIAL SECTION

Port of Kingston
January 1, 2022 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023
Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023
Statement of Net Position – 2022
Statement of Revenues, Expenses, and Changes in Net Position – 2023
Statement of Revenues, Expenses, and Changes in Net Position – 2022
Statement of Cash Flows – 2023
Statement of Cash Flows – 2022
Notes to Financial Statements – 2023
Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2023
Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2022
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2023
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2022

Port of Kingston
Management's Discussion and Analysis

The discussion and analysis of the Port of Kingston (the Port's) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2023. The discussion and analysis are designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements.

The Port is a Special Purpose Municipal Government, created in 1919 under provision of the Revised Code of Washington (RCW Title 53). The Port is independent from other local and state governments. Ports exist to build infrastructure and promote economic development and tourism within their districts. Ports are often, though not always, involved in transportation activities.

The Port has three Commissioners who are elected to six-year terms and serve as the governing body of the Port. The Port Commission appoints an Executive Director to manage Port operations and a Port Auditor (currently the Finance Director) to manage the Port's finances, and legal counsel. The Port Commission has hired an outside firm, CSD Attorneys at Law, to represent the Port.

Kitsap County serves as treasurer and levies and collects property taxes on behalf of the Port as determined by the Commission. These tax revenues go to support public access improvements, provide financing for land acquisition and development (including environmental costs) and to pay for debt service payments for limited tax general obligation (LTGO) bonds.

The Port serves as a major transportation hub for the Washington State Ferries and Kitsap Transit Ferry systems and leases property to those agencies. The Port also operates a 311-slip marina, a 335-stall parking lot, two-lane boat ramp, 440' fishing pier, fuel dock, the Mike Wallace Marina Park, North Beach area, and leases commercial buildings. The Port also serves as a venue for events, concerts, and the Kingston Public Market.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting falls under the control of the Governmental Accounting Standards Board (GASB). All functions of the Port are considered in the numbers shown in the following pages, including the cost of general government of the Port District. Since the Port is a Special Purpose government, all its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expenses, such as Port management and administration, public facility maintenance, and public meeting expenses. These expenses are reported in the Proprietary Fund. The "one fund" model is used in compliance with the rules of GASB 34, which state that separately issued debt and separately issued classified assets are needed for a separate fund to exist. Most of the governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports. Since the Port is comprised of a single enterprise fund, no fund level financial statements are included.

Ports perform their accounting and financial reporting of their activities very much like a business. The Port prepares an income statement, manages operations, and plans for capital investments. Ports collect revenues from services performed for customers and pay for expenses related to those services. However, ports are municipal governments, as such ports may collect property tax revenues from the property owners within the Port district. These tax revenues may go to support the capital investments made by the Port. Often, ports will use tax revenues to pay for debt incurred to construct facilities used to support Port functions. Sometimes, ports may use a portion of their tax revenue to pay for operating expenses. The Port of Kingston uses its tax revenue to pay down the outstanding LTGO bond, to supplement the cost of public amenities, and to promote economic development and tourism.

The financial statements provide a broad view of the Port's operations in a manner similar to a private-sector business. The financial statements consider all revenues and expenses connected with the fiscal year even if the cash has not been received or paid.

The Statement of Net Position presents the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in the Port's net position may serve as a useful indicator of whether the financial position of the Port is improving or declining.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Port's net position changed during the year. Revenue less expenses, when combined with other nonoperating items such as investment income, tax receipts, and interest expense, results in a net increase or decrease in the Port's net position for the year.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. A reconciliation of the cash provided by operating activities to the Port's operating income is reflected in the Statement of Revenues, Expenses, and Changes in Net Position are also included.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

Changes in net position and cash flows are two ways to measure the financial position of a Port. An increase in the Port's net position due to its operations indicates an improved financial position.

FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

Summary of Statement of Net Position				
	2023	2022	Increase (Decrease)	% Change
Current Assets	$ 3,195,108	$ 2,991,080	204,029	6.82%
Noncurrent Assets/Capital Assets	9,343,045	9,741,562	(398,518)	-4.09%
Total Assets	12,538,153	12,732,642	(194,489)	-1.53%
Deferred Outflow of Resources	335,946	387,392	(51,446)	-13.28%
Total Assets and Deferred Outflows of Resources	12,874,099	13,120,034	(245,935)	-1.87%
Current Liabilities	465,192	388,366	76,826	19.78%
Noncurrent Liabilities	2,181,928	2,301,688	(119,759)	-5.20%
Total Liabilities	2,647,120	2,690,053	(42,933)	-1.60%
Deferred Inflows of Resources	2,339,868	2,650,359	(310,491)	-11.72%
Net Investment in capital assets	6,435,456	6,577,081	(141,624)	-2.15%
Restricted	342,446	268,215	74,231	27.68%
Unrestricted	1,109,209	934,326	174,883	18.72%
Total Net Position	7,887,111	7,779,622	107,489	1.38%
Total Liabilities, Deferred Inflows of Revenue's and Net Position	$ 12,874,099	$ 13,120,034	(245,935)	-1.87%

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

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2023, as well as reviewing changes in revenues and expenses reflected in the financial statements.

The Port's primary focus over the last several years has been to build adequate cash reserves by increasing current revenue streams without deferring maintenance on existing facilities and structures.

The Port's current assets increased by $204,029 in 2023. Current assets include cash and equivalents, which increased by $347,451 or 14.1%, accounts and grants receivable, the 2023 portion of the present value of future rent payments for leases, and any prepaid expenses.

Non-current assets decreased by $398,518 in 2023. The Port implemented the Lease Accounting Standard GASB 87 in 2022, which decreased by $164,132 to $2,028,643 in 2023. In addition, the net pension asset decreased by $30,761. See Note 6*, Pension;* Note 10*, Leases;* for further information.

Deferred outflow of resources decreased by $51,446 to $335,946 in 2023, due to the adjustments for pension and the Asset Retirement Obligation (ARO).

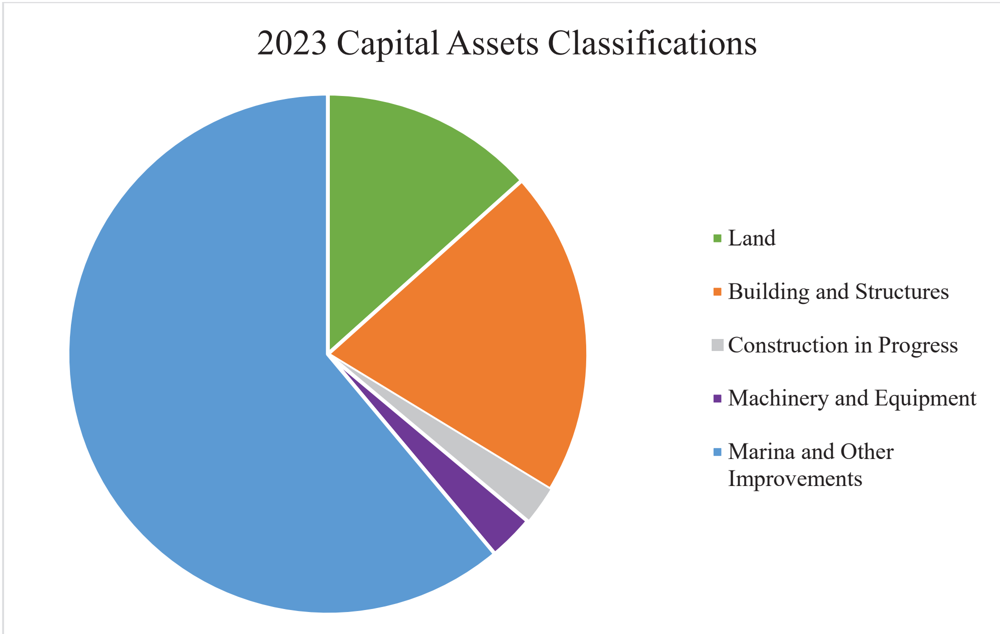
The Port's current liabilities include the portion of debt the Port will repay in 2024, customer deposit balances, current portion of compensated absences, prepaid customer payments identified as unearned revenue, Q4 leasehold and excise taxes for December 2023, and wages payable. Current Liabilities increased $76,826 to $465,192 primarily due to an increase of $53,906 in vendor payables.

Non-current Liabilities include unearned revenue from the Kitsap Transit lease, compensated absences, net pension liability, environmental remediation liability, asset retirement obligation, and an outstanding general obligation bond. As of December 31, 2023, the general obligation debt is $637,000, compared to $699,000 at the end of 2022, reflecting principal payments of $62,000. See Note 9– *Long Term Debt* and Note 6, *Pension*, in the notes to the financial statements for more information.

Deferred inflows of resources decreased by $310,491. This was also impacted by the implementation the Lease Accounting Standard GASB 87 in 2022, which resulted in a deferred inflow decrease of $158,890 to $2,192,775. The deferred inflow for pension decreased by $151,601.

Net investment of capital assets decreased by $141,624 to $6,435,456, which represents the total net capital assets, less the outstanding balance of the LTGO Bond of $637,000. The restricted net pension asset increased by $74,231 to $342,446. The Port's assets exceeded its liabilities by $7,887,111 (net position) as of December 31, 2023, an increase of $107,489 or 1.38%.

CAPITAL ASSETS



Capital Assets	2023	2022
Land	$ 1,871,056	$ 1,871,056
Construction in Progress	332,769	92,130
Buildings and Structures	2,839,416	2,839,416
Machinery and Equipment	396,312	383,628
Marina and Other Improvements	8,539,222	8,502,018
	$ 13,978,775	$ 13,688,248

The Port books the acquisition of all assets at historical cost on its Statement of Net Position. GASB 34 requires the Port to capitalize and depreciate all assets owned or controlled by the Port, which are shown in these financial statements.

The Port's capital assets are classified in the following categories: land, construction in progress, building and structures, machinery and equipment, and marina and other improvements. Marina and other improvements include assets such as docks, breakwaters, roads, and landscaping.

The Port purchased capital assets of $290,527, which includes the amount of project spend assigned to Construction in Progress in 2023.

The Port maintained capital assets of $13,978,775 as of December 31, 2023.

See Note 4*, Capital Assets*, in the notes to the financial statements for more information.

FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Summary of Statement of Revenues, Expenses, and Changes in Net Position				
	2023	2022	Increase (Decrease)	% Change
Marina Operations Revenues	$2,493,070	$2,475,693	17,377	0.70%
Property/Lease Rental Operations Revenues	793,390	704,892	88,498	12.55%
Nonoperating Revenues	434,980	257,458	177,522	68.95%
Total Revenues	3,721,440	3,438,043	283,397	8.24%
Operating Expenses	3,574,610	3,557,367	17,243	0.48%
Nonoperating Expenses	32,355	27,035	5,320	19.68%
Total Expenses	3,606,965	3,584,402	22,563	0.63%
Increase (Decrease) in Net Position	114,474	(146,359)	260,833	-178.21%
Net Position - Beginning	7,779,622	7,764,911	14,711	0.19%
Prior Period Adjustment	(6,985)	161,070	(168,055)	
Net Position - Ending	$7,887,111	$7,779,622	107,489	1.38%

The Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of changes in net position.

The Port's 2023 marina operations revenues were $2,493,070, an increase of $17,377 or 0.70% greater than the previous year. Permanent moorage is favorable due to annual rate increases. The guest moorage was similar to last year due to lower occupancy rates. Property and lease rental operation revenues were $793,390, an increase of $88,498 or 12.55% greater than the previous year. Parking revenue increased from the prior year.

The Port's 2023 non-operating revenues were $434,980, an increase of $177,522, or 68.95% more than the previous year. Capital grants and investment income increased by $55,729 and $48,860 respectively.

The Port's 2023 operating expenses were $3,574,610 an increase of $17,243, or 0.48% more than the previous year's operating expense levels. Compensation and Benefits only increased $37,619 since the pension expense adjustment to match the PEFI calculation offset the increase in salary and wages. Employee medical expenses increased $34,454 from the previous year. The Port's non-operating expenses were $32,355, an increase of $5,320 from the previous year.

The Port adopted goals in its Comprehensive Scheme of Harbor Improvements (also referred to as the Comprehensive Plan) including provisions to ensure that there is an adequate and appropriate level of infrastructure to support a growing economy. The Commission approved a resolution for the Port of Kingston to create an Industrial Development District (IDD) in the Port District in 2021.

We did not move forward with establishing the IDD in 2023. The Port is currently working on the project scope for economic development, which would include a mixed-use facility.

In 2023 the Port sent out a request for qualifications for architectural services for the design of a mixed-use commercial building(s) on the Port of Kingston property and awarded Wenzlau Architects PS, the contract. The Port moved forward with design and planning in 2023 that was presented to the public. Various funding options are being reviewed. The architectural firm and associated consultants generated design renderings that reflected County code and also developed infrastructure profile for civil, structural, and environmental requirements. The Port also designed and engineered the replacement of the public restroom in Mike Wallace Marina Park. This restroom serves all Moorage customers including Permanent and Guest boaters as well as all members of the public that visit the Port or use port facilities to transit through. This restroom is expected to be completed by the end of 2024.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Audra Trainer, Finance Director, at the Port of Kingston, 25864 Washington Boulevard, Kingston, WA 98346, by e-mail at audrat@portofkingston.org, or by telephone at (360) 297-3545.

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The Port has three Commissioners who are elected to six-year terms and serve as the governing body of the Port. The Port Commission appoints an Executive Director to manage Port operations and a Port Auditor (currently the Finance Director) to manage the Port's finances, and legal counsel. The Port Commission has hired an outside firm, Chmelik, Sitkin & Davis, to represent the Port.

Kitsap County serves as treasurer and levies and collects property taxes on behalf of the Port as determined by the Commission. These tax revenues go to support public access improvements, provide financing for land acquisition and development (including environmental costs) and to pay for debt service payments for limited tax general obligation (LTGO) bonds.

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OVERVIEW OF THE FINANCIAL STATEMENTS

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The financial statements provide a broad view of the Port's operations in a manner similar to a private-sector business. The financial statements consider all revenues and expenses connected with the fiscal year even if the cash has not been received or paid.

The Statement of Net Position presents the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in the Port's net position may serve as a useful indicator of whether the financial position of the Port is improving or declining.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Port's net position changed during the year. Revenue less expenses, when combined with other nonoperating items such as investment income, tax receipts, and interest expense, results in a net increase or decrease in the Port's net position for the year.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. A reconciliation of the cash provided by operating activities to the Port's operating income is reflected in the Statement of Revenues, Expenses, and Changes in Net Position are also included.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

Changes in net position and cash flows are two ways to measure the financial position of a Port. An increase in the Port's net position due to its operations indicates an improved financial position.

FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

Summary of Statement of Net Position

	2022	2021	Increase (Decrease)	% Change
Current Assets	$ 2,991,080	$ 2,414,633	576,447	23.87%
Noncurrent Assets/Capital Assets	9,741,562	8,249,059	1,492,504	18.09%
Total Assets	12,732,642	10,663,692	2,068,950	19.40%
Deferred Outflow of Resources	387,392	223,137	164,255	73.61%
Total Assets and Deferred Outflows of Resources	13,120,034	10,886,829	2,233,205	20.51%
Current Liabilities	388,366	267,853	120,513	44.99%
Noncurrent Liabilities	2,301,688	2,273,432	28,255	1.24%
Total Liabilities	2,690,053	2,541,285	148,769	5.85%
Deferred Inflows of Resources	2,650,359	580,634	2,069,725	356.46%
Net Investment in capital assets	6,577,081	6,930,312	(353,231)	-5.10%
Restricted	268,215	121,534	146,681	120.69%
Unrestricted	934,326	713,064	221,262	31.03%
Total Net Position	7,779,622	7,764,911	14,711	0.19%
Total Liabilities, Deferred Inflows of Revenue's and Net Position	$ 13,120,034	$ 10,886,829	2,233,205	20.51%

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

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2022, as well as reviewing changes in revenues and expenses reflected in the financial statements.

The Port's primary focus over the last several years has been to build adequate cash reserves by increasing current revenue streams without deferring maintenance on existing facilities and structures.

The Port's current assets increased by $576,447 in 2022. Current assets include cash and equivalents, which increased by $273,976 or 12.5%, accounts and grants receivable, the 2023 portion of the present value of future rent payments for leases, and any prepaid expenses.

Non-current assets increased by $1,492,504 in 2022. The Port implemented the Lease Accounting Standard GASB 87 in 2022, which resulted in booking a lease receivable of

$2,192,775. In addition, the net pension asset decreased by $286,040. See Note 7*, Pension;* Note 11*, Leases;* for further information.

Deferred outflow of resources increased by $164,255 to $387,392 in 2022, due to the adjustments for pension and the Asset Retirement Obligation (ARO).

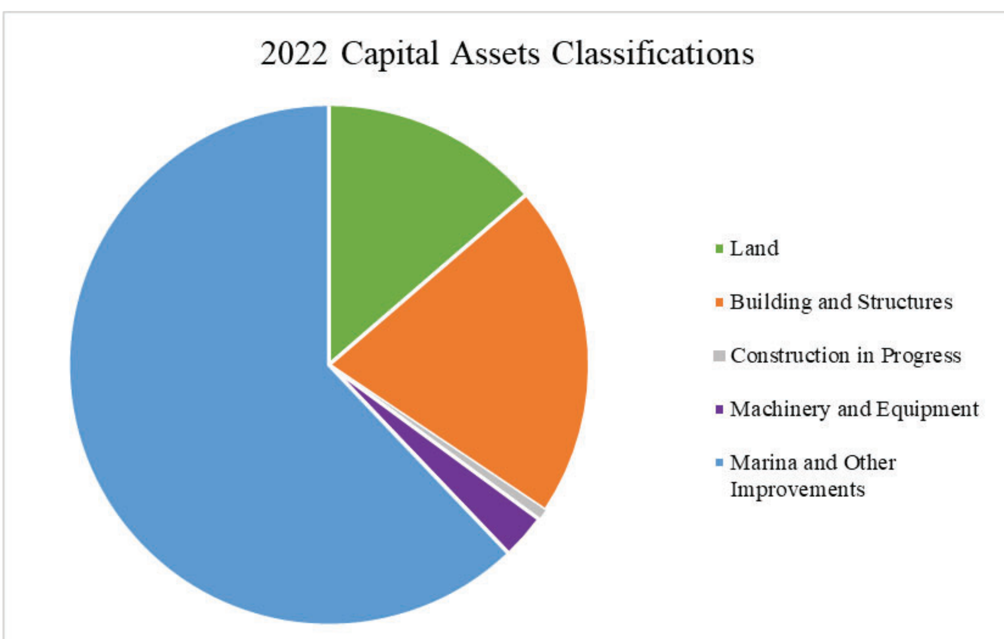
The Port's current liabilities include the portion of debt the Port will repay in 2023, customer deposit balances, current portion of compensated absences, prepaid customer payments identified as unearned revenue, Q4 leasehold and excise taxes for December 2022, and wages payable. Current Liabilities increased $120,513 to $388,366.

Non-current Liabilities include unearned revenue from the Kitsap Transit lease, compensated absences, net pension liability, environmental remediation liability, asset retirement obligation, and an outstanding general obligation bond. As of December 31, 2022, the general obligation debt is $699,000, compared to $760,000 at the end of 2021, reflecting principal payments of $61,000. See Note 10 – *Long Term Debt* and Note 7, *Pension*, in the notes to the financial statements for more information.

Deferred inflows of resources increased by $2,069,725. This was also impacted by the implementation the Lease Accounting Standard GASB 87 which resulted in a deferred inflow of $2,351,665, while the deferred inflow for pension decreased by $281,940.

Net investment of capital assets decreased by $353,231 to $6,577,081, which represents the total net capital assets, less the outstanding balance of the LTGO Bond of $699,000. The restricted net pension asset decreased by $146,681 to $268,215. The Port's assets exceeded its liabilities by $7,779,622 (net position) as of December 31, 2022, an increase of $14,711 or 0.19%.

CAPITAL ASSETS



Capital Assets		2022	2021
Land	$	1,871,056	$ 1,871,056
Construction in Progress		92,130	36,688
Buildings and Structures		2,839,416	7,365,281
Machinery and Equipment		383,628	274,241
Marina and Other Improvements		8,502,018	4,208,489
	$	13,688,248	$ 13,755,754

The Port books the acquisition of all assets at historical cost on its Statement of Net Position. GASB 34 requires the Port to capitalize and depreciate all assets owned or controlled by the Port, which are shown in these financial statements.

The Port completed an audit and cleanup of the capital assets in 2022. This resulted in the removal of the 413 assets that were below the $5,000 threshold the Port identified as a "capital asset". The removal of these assets reduced the asset balance by $282,834 and resulted in a loss of $68,393. The audit also resulted in the consolidation of assets that should have been booked together as one asset but were booked as separate assets by invoice date. Proper accounting would have been to record invoices for the future asset into a "Construction-In-Progress" (CIP) account until project completion and then booked as one asset. We also aligned the assets to match proper BARS accounting on the Balance Sheet and for Line of Business reporting.

The Port's capital assets are classified in the following categories: land, construction in progress, building and structures, machinery and equipment, and marina and other improvements. Marina and other improvements include assets such as docks, breakwaters, roads, and landscaping.

In addition, many assets were moved to the appropriate classification which can be seen in the balance shifts between categories in the graph above.

The Port purchased capital assets of $215,327 which includes the amount of project spend assigned to Construction in Progress in 2022.

The Port maintained capital assets of $13,688,248 as of December 31, 2022.

See Note 4*, Capital Assets*, in the notes to the financial statements for more information.

FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Summary of Statement of Revenues, Expenses, and Changes in Net Position				
	2022	2021	Increase (Decrease)	% Change
Marina Operations Revenues	$2,475,693	$2,223,234	252,459	11.36%
Property/Lease Rental Operations Revenues	704,892	658,228	46,664	7.09%
Nonoperating Revenues	257,458	264,071	(6,614)	-2.50%
Total Revenues	3,438,043	3,145,534	292,509	9.30%
Operating Expenses	3,557,367	2,963,807	593,560	20.03%
Nonoperating Expenses	27,035	32,524	(5,490)	-16.88%
Total Expenses	3,584,402	2,996,332	588,070	19.63%
Increase (Decrease) in Net Position	(146,359)	149,202	(295,560)	-198.09%
Net Position - Beginning	7,764,911	7,615,709	149,202	1.96%
Prior Period Adjustment	161,070	0	161,070	
Net Position - Ending	$7,779,622	$7,764,911	14,711	0.19%

The Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of changes in net position.

The Port's 2022 marina operations revenues were $2,475,693, an increase of $252,459 or 11.36% greater than the previous year. Permanent moorage is favorable due to annual rate increases. The guest moorage was similar to last year due to lower occupancy rates. Property and lease rental operation revenues were $704,892, an increase of $46,664 or 7.09% greater than the previous year. Parking revenue, specifically the daily parking, increased from the prior year.

The Port's 2022 non-operating revenues were $257,458, a decrease of $6,614, or 2.50% less than the previous year.

The Port's 2022 operating expenses were $3,557,367 an increase of $593,560, or 20.03% more than the previous year's operating expense levels. Compensation and Benefits increased $327,457 due to several factors including: 1) staffing changes; 2) an accrual for the last payroll in December of 2022, with no offsetting reversal from 2021; 3) retention bonus payout to employees in June 2022; 4) year-end pension expense adjustment to match to PEFI calculation. The Port has seen an increase in insurance, credit card fees, and advertising and promotion. The Port's non-operating expenses were $27,035, a decrease of $5,490 from the previous year.

An internal audit of the fuel statements indicated that the Port has been paying sales tax on diesel fuel in error. In 2022, the Port's reseller certificate was provided to the fuel vendor to ensure we are no longer being billed for sales tax. In addition, a credit was processed through the Washington

State Department of Revenue dating back to January 2018, totaling $176,809. The portion of taxes prior to 2022 are shown as a prior period adjustment on the statement of revenue and expenses.

The Port adopted goals in its Comprehensive Scheme of Harbor Improvements (also referred to as the Comprehensive Plan) including provisions to ensure that there is an adequate and appropriate level of infrastructure to support a growing economy. The Commission approved a resolution for the Port of Kingston to create an Industrial Development District (IDD) in the Port District in 2021. We did not move forward with establishing the IDD in 2022. The Port is currently working on the project scope for economic development, which would include a mixed-use facility.

In 2022 the Port sent out a request for qualifications for architectural services for the design of a mixed-use commercial building(s) on the Port of Kingston property and awarded Wenzlau Architects PS, the contract. The Port is moving forward with design and planning in 2023 that will be presented to the public. Various funding options are being reviewed.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Audra Trainer, Finance Director, at the Port of Kingston, 25864 Washington Boulevard, Kingston, WA 98346, by e-mail at audrat@portofkingston.org, or by telephone at (360) 297-3545.

PORT OF KINGSTON
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS		
Current Assets		
Cash and cash equivalents	$	2,805,771
Accounts receivable		31,050
Current portion of lease receivable		164,132
Taxes receivable		6,560
Inventory		35,726
Prepaid expenses		151,869
Total current assets		3,195,108
Noncurrent Assets		
Lease receivable		2,028,643
Net pension asset		241,945
Total noncurrent assets		2,270,588
Capital Assets		
Capital Assets Not Being Depreciated		
Land		1,871,056
Construction in progress		332,769
Capital Assets Being Depreciated		
Buildings and Structures		2,839,416
Machinery and Equipment		396,312
Marina and Other Improvements		8,539,222
Less: Accumulated depreciation		(6,906,319)
Total Net Capital Assets		7,072,456
Total Assets	$	12,538,153
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pensions		249,928
Deferred outflows - asset retirement obligation		86,019
Total Deferred Outflows	$	335,946

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF NET POSITION
DECEMBER 31, 2023

LIABILITIES		
Current Liabilities		
Accounts payable	$	176,333
Accrued expenses		111,977
Unearned revenue		8,419
Tenant deposits		70,922
Current portion of compensated absences		10,029
Current portion of long-term unearned revenue		24,512
Current portion of long-term debt		63,000
Total Current Liabilities		465,192
Noncurrent Liabilities		
Compensated absences		44,583
Long-term unearned revenue		1,159,118
Environmental remediation liability		120,000
Asset retirement obligation		179,655
Pension liability		104,572
General obligation bonds		574,000
Total Noncurrent Liabilities		2,181,928
Total Liabilities	$	2,647,120
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pensions		147,093
Deferred inflows - lease		2,192,775
Total Deferred Inflows	$	2,339,868
NET POSITION		
Net investment in capital assets		6,435,456
Restricted for net pension asset		342,446
Unrestricted		1,109,209
TOTAL NET POSITION	$	7,887,111

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF NET POSITION
December 31, 2022

ASSETS		
Current Assets		
Cash and cash equivalents	$	2,458,320
Accounts receivable		193,137
Current portion of lease receivable		158,890
Taxes receivable		6,013
Inventory		59,859
Prepaid expenses		114,861
Total current assets		2,991,080
Noncurrent Assets		
Lease receivable		2,192,775
Net pension asset		272,707
Total noncurrent assets		2,465,482
Capital Assets		
Capital Assets Not Being Depreciated		
Land		1,871,056
Construction in progress		92,130
Capital Assets Being Depreciated		
Buildings and Structures		2,839,416
Machinery and Equipment		383,628
Marina and Other Improvements		8,502,018
Less: Accumulated depreciation		(6,412,167)
Total Net Capital Assets		7,276,081
Total Assets	$	12,732,642
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pensions		284,098
Deferred outflows - asset retirement obligation		103,294
Total Deferred Outflows	$	387,392

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF NET POSITION
December 31, 2022

LIABILITIES		
Current Liabilities		
Accounts payable	$	122,428
Accrued expenses		97,254
Unearned revenue		9,108
Tenant deposits		70,244
Current portion of compensated absences		3,501
Current portion of long-term unearned revenue		23,830
Current portion of long-term debt		62,000
Total Current Liabilities		388,366
Noncurrent Liabilities		
Compensated absences		35,014
Long-term unearned revenue		1,183,631
Environmental remediation liability		117,000
Asset retirement obligation		171,754
Pension liability		157,289
General obligation bonds		637,000
Total Noncurrent Liabilities		2,301,688
Total Liabilities	$	2,690,053
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pensions		298,694
Deferred inflows - lease		2,351,665
Total Deferred Inflows	$	2,650,359
NET POSITION		
Net investment in capital assets		6,577,081
Restricted for net pension asset		268,215
Unrestricted		934,326
TOTAL NET POSITION	$	7,779,622

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

Operating Revenues:		
Marina operations	$	2,493,070
Property operations		793,390
Total Operating Revenues		3,286,460
Operating Expenses:		
General operations		858,292
Maintenance		836,421
General and administrative		1,360,570
Depreciation and amortization		519,328
Total operating expenses		3,574,610
Operating Income (Loss)		(288,150)
Nonoperating Revenues (Expenses):		
Taxes levied for Port operations:		
Real and personal property taxes		228,214
Timber and leasehold excise taxes		2,465
Investment income		62,900
Interest income - lease		74,076
Election expense		(6,935)
Interest expense		(22,420)
Environmental remediation expense		(3,000)
Total nonoperating revenues (expenses)		335,301
Net Income (Loss) Before Capital Grants		47,150
Capital Grants		67,324
Increase in Net Position		114,474
Net position at the beginning of the period		7,779,622
Prior Period Adjustment		(6,985)
Net position at the end of the period	$	7,887,111

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022

Operating Revenues:		
Marina operations	$	2,475,693
Property operations		704,892
Total Operating Revenues		3,180,586
Operating Expenses:		
General operations		797,894
Maintenance		880,239
General and administrative		1,326,441
Depreciation and amortization		552,794
Total operating expenses		3,557,367
Operating Income (Loss)		(376,782)
Nonoperating Revenues (Expenses):		
Taxes levied for Port operations:		
Real and personal property taxes		222,414
Timber and leasehold excise taxes		2,781
Operating Grant proceeds		2,655
Gain on capital asset disposals		(68,393)
Investment income		14,041
Interest income - lease		72,365
Interest expense		(24,035)
Environmental remediation expense		(3,000)
Total nonoperating revenues (expenses)		218,828
Net Income (Loss) Before Capital Grants		(157,954)
Capital Grants		11,595
Decrease in Net Position		(146,359)
Net position at the beginning of the period		7,764,911
Prior Period Adjustment		161,070
Net position at the end of the period	$	7,779,622

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	3,291,560
Payments to suppliers		(1,485,005)
Payments to employees		(1,483,728)
Net cash provided by operating activities		322,826
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash receipts from real and personal property taxes		227,668
Timber and leasehold taxes		2,465
Other receipts (payments) for other non-operating activities		(6,935)
Net cash provided by noncapital financing activities		223,198
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments bonds		(62,000)
Interest paid on bonds		(22,420)
Cash received from grants		39,399
Purchase of capital assets		(290,527)
Net cash provided by capital and related financing activities		(335,549)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments		136,977
Net cash provided by investing activities		136,977
Net increase in cash and cash equivalents		347,451
CASH AND CASH EQUIVALENTS, beginning of year		2,458,320
CASH AND CASH EQUIVALENTS, end of year	$	2,805,771

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

Reconciliation of operating loss to net cash provided by operating activities:		
Net operating loss	$	(288,150)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation & amortization expense		519,328
Pension negative expense		(146,132)
Other non-cash revenue/expense		150,382
Changes in assets and liabilities		
Decrease in accounts receivable		28,252
(Increase) in inventory and prepaid expenses		(12,876)
Increase in accounts payable & other current liabilities		70,863
Increase in tenant deposits		677
Increase in pension liability		481
Total adjustments		610,976
Net cash provided by operating activities	$	322,826

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	3,238,587
Payments to suppliers		(1,619,361)
Payments to employees		(1,359,673)
Net cash provided by operating activities		259,553
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash receipts from real and personal property taxes		222,943
Timber and leasehold taxes		2,781
Net cash provided by noncapital financing activities		225,725
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments bonds		(61,000)
Interest paid on bonds		(24,035)
Cash received from grants		2,655
Purchase of capital assets		(215,327)
Net cash provided by capital and related financing activities		(297,707)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments		86,405
Net cash provided by investing activities		86,405
Net increase in cash and cash equivalents		273,976
CASH AND CASH EQUIVALENTS, beginning of year		2,184,344
CASH AND CASH EQUIVALENTS, end of year	$	2,458,320

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

Reconciliation of operating loss to net cash provided by operating activities:		
Net operating loss	$	(376,782)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation & amortization expense		552,794
Pension negative expense		(40,892)
Other non-cash revenue/expense		(4,786)
Changes in assets and liabilities		
Decrease in accounts receivable		74,074
(Increase) in inventory and prepaid expenses		(42,269)
Increase in accounts payable & other current liabilities		89,487
Increase in tenant deposits		7,094
Increase in pension liability		833
Total adjustments		636,335
Net cash provided by operating activities	$	259,553

The accompanying notes are an integral part of this statement.

PORT OF KINGSTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Port was incorporated in 1919 and operates under the laws of the state of Washington applicable to a port district as a municipal corporation under the provisions of Chapter 53 of the Revised Code of Washington (RCW). The Port is a special purpose government and provides marina and related facilities to the public and is supported primarily through user charges, property leases, and fees.

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

As required by the generally accepted accounting principles the financial statements present the Port, the primary government, and its component units. Management has considered all potential component units in defining the reporting entity. The component unit discussed below is included in the district's reporting entity.

The Industrial Development District (IDD) was established by the Commission in 2021. The commission signed a resolution that would authorize the establishment of an IDD and define the boundaries of the IDD. The resolution merely affirms the Commission's intent to create an IDD but does not, in and of itself, impose any new taxes. Instead, the Commission (and subsequent commissions) will determine how much, (if any) should be levied and collected in the future. The IDD had no activity in the 2023 audit period.

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 Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting, and Reporting System for GAAP Port Districts* in the State of Washington.

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

The Port distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and facilities in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for marina operations, fuel sales, parking, and land and building lease revenue. Operating expenses for the Port include the cost of goods sold (COGS), general and administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Port receives federal and state grants for both capital reimbursement as well as operating grants for specific purposes. Operating grants and related expenses are accounted for as non-operating revenue and expenses while capital grants are accounted for as capital contributions increasing the net position of the Port.

All assets and liabilities (whether current or non-current) associated with their activity are included on the statement of net position. Their reported fund position is segregated into net investment in capital assets and committed, restricted, and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in the net position. The port discloses changes in cash flows in a separate statement that presents its operating, non-capital financing, capital and related financing and investment activities.

C. Use of Estimates

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

D. Significant Risks and Uncertainties

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

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. On December 31, 2023, the treasurer was holding $2,459,622 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents.

For purposes of the statement of cash flows, the Port considers all highly liquid investments (<u>including restricted assets</u>) with a maturity of three months or less to be cash equivalents.

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

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 3 – *Property Taxes*). Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

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

4. Amounts Due from Others

This account includes amounts owed from governmental grants and other settlements. As of December 31, 2023, grants receivable was $27,925.

5. Inventories

Inventories for fuel sales consist of non-ethanol gasoline and diesel fuel held at the Port's marina fuel dock as of December 31, 2023. Fuel inventory has been valued based on the first-in, first-out or FIFO method of accounting, which approximates the market value.

6. Prepaid Expenses

Prepaid expenses represent amounts paid in advance for items of future benefit. The amount reported on the statement of net position primarily consists of prepaid insurance for the Port's property and general liability coverage, medical benefits, and software (with contracts of 1-year or less).

7. Capital Assets – See Note 4 – *Capital Assets*

Capital assets, which include property, plant, equipment, improvements, and intangible right to use leased assets. 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.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, in construction in progress, until the project is completed and put into use, at which time it is booked as an asset and depreciation begins.

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

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

Assets	**Years**
Building and Structures	10-50
Machinery and Equipment	03-20
Marina and Other Improvements	03-20
Software, furniture, and fixtures	03-07

8. Leases (Port as Lessor) – See Note 10, *Leases*

The Port is a lessor for noncancelable leases. The Port recognizes a lease receivable and a deferred inflow on financial statements.

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 effective interest method.

Key estimates and judgements related to lease 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 uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

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.

9. Deferred Outflows/Inflows of Resources

In accordance with GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, the Port reports separate sections for these items on the Statement of Net Position. Deferred outflows represent a consumption of net liabilities that applies to a future period; conversely, deferred inflows represent an acquisition of net assets that applies to a future period. As of December 31, 2023, the Port recorded deferred outflows and inflows of resources of $335,946 and $2,339,868, respectively.

10. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Port records employees leave benefits as an expense and liability when earned.

Vacation pay may be accumulated up to 5 weeks, is payable upon resignation, retirement, or death.

Upon resignation or retirement, outstanding sick leave is lost.

11. Pensions

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

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

12. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

13. Long-Term Debt – See Note 9– *Long-Term Debt*

14. Unearned Revenues

This account includes amounts recognized as receivable but not revenues in governmental funds because the revenue recognition criteria have not been met. On December 31, 2023, the Port held

$1,192,050 in unearned revenue. This amount represents pre-payments of rent and will be recognized as revenue in future years.

15. Net Position Classification

The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted. The Port's Statement of Net Position reports $342,446 of restricted net position for pension asset as per Note 6, *Pension*. None of the restricted net position is restricted by enabling legislation.

16. IDD – Industrial Development District

A central purpose of the Port is to create economic development and provide employment opportunities that strengthen the local economy. Port infrastructure provides a foundation that supports Kitsap County's marine-related commercial and recreational sectors and also as a transportation hub for the Olympic Peninsula.

In recognition of the key economic development role played by port districts, the Washington State Legislature adopted Chapter 53.25 RCW authorizing the establishment of Industrial Development Districts (IDD). Formation of an IDD provides a port district with specific powers, including special additional taxing authority, to facilitate development and redevelopment of lands within the boundaries of the IDD. Chapter 53.25 RCW was originally adopted in 1955 and amended in 1957 to allow multiple levy periods.

The Port of Kingston has never used this statutory authority. Per RCW 53.25.040 the Port Commission may authorize an Industrial Development District (IDD) in the event this commission or future commissions decides to exercise their authority to issue a levy.

Note 2 – Deposits and Investments

Treasury Function

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

The Port established a designated investment fund to cover the cost of asset replacement and new construction in the future referred to as the Capital Projects Fund. As of December 31, 2023, the balance of the fund is $1,736,199. The Port transfers $52,500 per quarter from the operating fund to the Capital Projects Fund per resolution.

Deposits

The Port has established a direct banking service with Umpqua Bank for all cash and check deposits. The funds are transferred via ACH to the Treasury Account. All deposits for credit card transactions are deposited directly to the Treasury checking account.

Investments in Kitsap County Investment Pool (KCIP)

The Port is a participant in the Kitsap County investment pool, an external investment pool operated by the County Treasurer. The pool is not registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The Port reports its investment in the pool at amortized cost, which is the same as the value of the pool per share. The pool does not impose any restrictions on participant withdrawals/disclose any liquidity fees, redemption gates or other restrictions. It is the Port's policy to invest all temporary cash surpluses. The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at https://tre.wa.gov/our-office.

Note 3 – Property Taxes

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

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

The Port's regular levy for 2023 was $0.120706 per $1,000 on an assessed valuation of $1,888,696,987 for a total regular levy of $227,978.

Note 4 – Capital Assets

Capital assets are assets with initial, individual cost of more than $5,000 and an estimated useful life greater than 1 year. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

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

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

- Building and improvements are assigned lives of 10 to 50 years
- Machinery and equipment 3 to 20 years, and
- Software and furniture and fixtures 3 to 7 years.

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

	Beginning Balance 1/1/2023	Increases	Decreases	Ending Balance 12/31/2023
Capital assets, not being depreciated				
Land	$ 1,871,056	$ -	$ -	$ 1,871,056
Construction in progress	92,130	240,639	-	332,769
Total capital assets, not being depreciated	1,963,185	240,639	-	2,203,824
Capital assets, being depreciated				
Buildings and structures	2,839,416	-	-	2,839,416
Machinery and equipment	383,628	12,684	-	396,312
Marina and other improvements	8,502,018	37,205	-	8,539,222
Total capital assets being depreciated	11,725,063	49,888	-	11,774,951
Less: accumulated depreciation	6,412,167	494,152		6,906,319
Total capital assets, being depreciated, net	$ 5,312,896	$ (444,264)	$ -	$ 4,868,632

The Port purchased capital assets of $49,888, which does not include the expenses assigned to Construction in Progress of $240,639.

Note 5 – Construction and Other Significant Commitments

As of December 31, 2023, the Port has five active construction projects.

Project	Total Spent	Remaining Commitment
Washington Blvd. Properties Development-Design	$213,587	4,336,413
RCO Middle Restroom	104,101	237,165
Piling Replacements	4,323	100,678
Fire Suppression System	1,283	108,718
RCO Guest Floats	9,476	604,524
	$332,769	$5,387,497

Note 6 – Pensions – State Sponsored (DRS) Plans

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

Aggregate Pension Amounts - All Plans	
Pension liabilities	(104,572)
Pension assets	241,945
Deferred outflows of resources	249,928
Deferred inflows of resources	(147,093)
Pension expense/expenditures	(46,445)

State Sponsored Pension Plans

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

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the members' 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

<u>Contributions</u>

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

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January – June 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**
July – August 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Total	**9.39%**	**6.00%**
September – December 2023		
PERS Plan 1	6.36%	6.00%
PERS 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 defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
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	0.18%	
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 $32,288 to PERS Plan 1 and $60,653 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions

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

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

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

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR). OSA did make an assumption change to adjust TRS Plan 1 assets, LEOFF Plan 1/2 assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022 measurement date.

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of 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%, 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%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	$146,095	$104,572	$68,332
PERS 2/3	$263,144	($241,945)	($656,908)

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's reported its proportionate share of the net pension liabilities as follows:

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	.005649%	.004581%	(.001068%)
PERS 2/3	.007353%	.005903%	(.001450%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

Pension Expense

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

	Pension Expense
PERS 1	($32,867)
PERS 2/3	($13,578)
TOTAL	($46,445)

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:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		

Net difference between projected and actual investment earnings		($11,796)
Changes of assumptions		
Changes in proportionate share		
Contributions subsequent to the measurement date	$14,131	
TOTAL	$14,131	($11,796)

PERS Plan 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$49,284	($2,703)
Net difference between projected and actual investment earnings		($91,180)
Changes of assumptions	$101,577	($22,140)
Changes in proportionate share	$54,278	($19,274)
Contributions subsequent to the measurement date	$30,658	
TOTAL	$235,797	($135,296)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$49,284	($2,703)
Net difference between projected and actual investment earnings		($102,976)
Changes of assumptions	$101,577	($22,140)
Changes in proportionate share	$54,278	($19,274)
Contributions subsequent to the measurement date	$44,788	
TOTAL	$249,928	($147,093)

Deferred outflows of resources related to pensions resulting from the Port’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS Plan 1
2024	($8,026)
2025	($10,093)
2026	$6,223
2027	$99
2028	$ -
Thereafter	$ -
TOTAL	($11,796)

Year ended December 31:	PERS Plan 2/3
2024	($35,915)
2025	($44,651)
2026	$80,646
2027	$31,817
2028	$30,569
Thereafter	$7,377
TOTAL	$69,843

Note 7 – Risk Management

The Port of Kingston 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/co- pays 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 – Changes in Long-Term Liabilities

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

	Beginning Balance 01/01/2023	Additions	Reductions	Ending Balance 12/31/2023	Due Within One Year
Compensated absences	$38,515	$16,097	-	$54,612	$10,029
GO bonds payable	699,000	-	62,000	637,000	63,000
Net pension liability	157,289	0	52,717	104,572	-
Long-term unearned revenue	1,207,461	-	23,830	1,183,631	24,512
Environmental remediation liability	117,000	3,000	-	120,000	-
Asset retirement obligation	171,754	7,901	-	179,655	-
Total Long-Term Liabilities	$2,391,019	$26,998	$138,547	$2,279,470	$97,542

In accordance with generally accepted accounting principles for regulated business, the Port recognized unearned revenue receipts of $1,300,000 in 2018 that are being recognized as earned over a 35-year period. These receipts resulted from a 35-year long pier and facilities lease agreement between the Port and Kitsap Transit. The yearly amount the Port recognized for 2023 was $23,830. The outstanding balance as of December 31, 2023, was $1,183,631.

The current long-term environmental remediation liability totaled $120,000 as of December 31, 2023. See Note 12 – *Environmental Remediation Obligation* for further information.

The Asset Retirement Obligation for our underground storage tanks totaled $179,655. See Note 13 – *Asset Retirement Obligation* for further information.

Note 9 – Long-Term Debt

The Port issues obligation bonds to finance the acquisition or construction of capital assets. The Port did not issue additional general obligation debt in 2023. General obligation bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
Limited Tax General Obligation Bond, 2017	$1,000,000	1.83%-3.63%	2032	$637,000
Total General Obligation Bond				$637,000

The annual debt service requires for limited tax general obligation bond are as follows:

	Principal	Interest	Total
2024	63,000	20,672	83,672
2025	64,500	18,806	83,306
2026	65,000	16,823	81,823
2027	66,500	14,766	81,266
2028	68,500	12,593	81,093
2029-2032	309,500	25,270	334,770
	637,000	108,931	745,931

There were no outstanding revenue bonds or bond reserves as of December 31, 2023.

Note 10 – Leases

In 2022, The Port of Kingston implemented GASB Statement No. 87, Leases. Leases related to this accounting principle have a fixed term that exceeds 1 year. Therefore, moorage and other month-to-month leases are not considered in the discussion below.

Lease Type	Term Years	Remaining Months	Monthly Lease Pymt	Remaining Extentions	Rent Increases
Building Lease	6	96	1,313	Two 2-year terms	CPI Annually
Land Lease	35	150	18,194	None	CPI Annually

2023 inflows of resources from lease activity were as follows:

Lease Revenue	$158,890
Interest Revenue	$74,076
	$232,966

The Port's minimum future lease rental income for noncancelable operating lease terms remaining are as follows:

Year Ended December 31	Principal	Interest	Total
2024	164,132	3,419	167,551
2025	169,546	63,420	232,966
2026	175,139	57,827	232,966
2027	180,917	52,050	232,966
2028	186,885	46,081	232,966
2029-2033	998,567	134,762	1,133,329
2034-2038	317,588	8,234	325,822
TOTAL	2,192,775	365,794	2,558,568

Note 11 – Restricted Component of Net Position

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

The Port's Statement of Net Position reports $342,446 of restricted net position for pension asset per Note 6- *Pension*. Note of the restricted net position is restricted by enabling legislation.

Note 12 – Environmental Remediation Obligations

In November 2006, the Government Accounting Standards Board issued GASB No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007.

The Port's property has known underground contaminants resulting from the presence of a former underground fuel storage tank. The site is listed by the Department of Ecology as a Voluntary Cleanup Site. The governmental agencies having jurisdiction over the property have not required remediation of the site or removal of contaminated soil at this time, but such action will likely be required in the future if the property is developed further.

The Port's estimate of its pollution remediation obligations as of April 4, 2012, was estimated at $87,000 and an assumption of $3,000 annual increases was adopted by the Port Commission. The Port commission has set aside cash reserves for this amount by resolution on the same date. As of December 31, 2023, the amount has been adjusted to $120,000 per the projected schedule.

The Port's liability could change over time due to changes in the cost estimates, changes in technology, and changes in governing laws and regulations.

Note 13 – Asset Retirement Obligation

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2018. The Port adopted this standard in 2020.

The Port owns and operates two fuel facilities, a fuel dock at the marina and a fuel station at the end of the fishing pier which is extended onto a barge facility. The fuel dispensers are supplied by two 12,000 gallon, double walled, dielectric-coated underground storage tanks (UST) that were installed in June 2007. The Washington Administrative Code (WAC) Chapter 173-360A requires owners and operators to monitor the tanks for leakage, provide insurance coverage for all leakage, submit to periodic testing of the tanks and monitoring equipment, and provide training to staff.

The Washington State Department of Ecology (DOE) monitors and regulates underground storage tanks, including requirements for permanent closure, pursuant Washington Administrative Code (WAC) Chapter 173-360A.

The Port has chosen to measure the ARO based on the cost estimate for decommissioning and removing one 20,000-gallon gasoline underground storage tank, prepared by DH Environmental, Inc. in October 2019, for the Port of Seattle. The estimate totaled $82,382. Multiplying by the 2 smaller tanks the Port owns, resulting in a liability of $164,764 for 2020. This amount will be reviewed annually to account for the effects of inflation or deflation, and to consider any factors significantly affecting the estimate, such as, changes in technology, changes in legal or regulatory requirements, and changes to the type of equipment or services that may be used to decommission the underground storage tanks.

GASB 83 is retroactive to the date of the internal obligating event in June of 2007 and is effective over the life of the underground storage tanks. The tanks originally had a 20-year estimated life, which will be reevaluated in 2024. Underground storage tanks typically have estimated useful lives ranging from 30-40 years.

The Port has pollution liability coverage with Mid-Continent Casualty Company. This policy covers $1,000,000 per pollution incident with $1,000,000 Annual Aggregate.

Upon retirement of those underground storage tanks, The Port will fund the decommissioning out of current reserves or the Capital Projects Fund.

The ARO liability for 2023 totaled $179,655.

Note 14 – Contingencies and Litigation

In the opinion of management, the Port insurance policies are adequate to pay all known or pending claims.

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

Note 15 – Prior Period Adjustment

During 2023 the Port recorded the following prior period adjustment:

In the statement of revenue and expenses the Port recognized an expense of $6,985 for a credit card dispute for merchandise not received.

PORT OF KINGSTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Port was incorporated in 1919 and operates under the laws of the state of Washington applicable to a port district as a municipal corporation under the provisions of Chapter 53 of the Revised Code of Washington (RCW). The Port is a special purpose government and provides marina and related facilities to the public and is supported primarily through user charges.

The Port is independent from other local or state governments and operates within district boundaries which include the northeast corner of Kitsap County. A three-member Board of Commissioners administer it, each of whom are elected to a six-year term. The Board of Commissioners delegates authority to an Executive Director and administrative staff who conduct the operations of the Port of Kingston. Kitsap County levies and collects taxes and issues warrants for payment of expenditures on the Port's behalf.

As required by the generally accepted accounting principles the financial statements present the Port, the primary government, and its component units. Management has considered all potential component units in defining the reporting entity. The Industrial Development District discussed in Note 1 – E 16, meets the criteria for a component unit. However, the District is still in the process of establishment and has had no activity in the audit period.

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 Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting, and Reporting System for GAAP Port Districts* in the State of Washington.

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

The Port's distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and facilities in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for marina operations, fuel sales, parking, and land and building lease revenue. Operating expenses for the Port include the cost of goods sold (COGS), general and administrative expenses, maintenance, and depreciation of Capital Assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Port receives federal and state grants for both capital reimbursement as well as operating grants for specific purposes. Operating grants and related expenses are accounted for as non-operating revenue and expenses while capital grants are accounted for as capital contributions increasing the net position of the Port.

All assets and liabilities (whether current or non-current) associated with their activity are included on the statements of net position. Their reported fund position is segregated into net investment in capital assets and committed, restricted, and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in the net position. The port discloses changes in cash flows in a separate statement that presents its operating, non-capital financing, capital and related financing and investment activities.

C. Use of Estimates

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

D. Significant Risks and Uncertainties

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

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2022, the treasurer was holding $2,458,320 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents.

For purposes of the statement of cash flows, the Port considers all highly liquid investments (<u>including restricted assets</u>) with a maturity of three months or less to be cash equivalents.

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

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 3 – *Property Taxes*). Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established for these items. Allowance for uncollectible amounts consists of the estimated amounts of customer accounts, notes and contracts that will never be collected. There are no estimated uncollectible amounts as of December 31, 2022.

4. Due from Others

This account includes amounts owed from governmental grants and other settlements. As of December 31, 2022, grants receivable was $11,595.

5. Inventories

Inventories for fuel sales consist of non-ethanol gasoline and diesel fuel held at the Port's marina fuel dock as of December 31, 2022. Fuel inventory has been valued based on the first-in, first-out or FIFO method of accounting, which approximates the market value. The Port maintains a small inventory of retail merchandise to sell to consumers. The costs are recorded as the cost of goods sold at the time the inventory items are consumed.

6. Prepaid Expenses

Prepaid expenses represent amounts paid in advance for items of future benefit. The amount reported on the statement of net position primarily consists of prepaid insurance for the Port's property and general liability coverage, dues, advertising, marketing programs, and software maintenance agreements.

7. Capital Assets – See Note 4 – *Capital Assets*

Capital assets, which include property, plant, equipment, improvements, and intangible right to use leased assets. 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.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, in construction in progress, until the project is completed and put into use, at which time it is booked as an asset and depreciation begins.

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

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

Assets	**Years**
Building and Structures	10-50
Machinery and Equipment	03-20
Marina and Other Improvements	03-20
Software, furniture, and fixtures	03-07

8. Leases (Port as Lessor) – See Note 11, *Leases*

The Port is a lessor for noncancelable leases. The Port recognizes a lease receivable and a deferred inflow on financial statements.

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 effective interest method.

Key estimates and judgements related to lease 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 uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

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.

9. Deferred Outflows/Inflows of Resources

In accordance with GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, the Port reports separate sections for these items on the Statement of Net Position. Deferred outflows represent a consumption of net liabilities that applies to a future period; conversely, deferred inflows represent an acquisition of net assets that applies to a future period. As of December 31, 2022, the Port recorded deferred outflows and inflows of resources of $387,392 and $2,650,359, respectively.

10. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Port accrues a liability for compensated absences. These are absences for which employees will be paid, such as vacation leave. The Port records employees leave benefits as an expense and liability when earned.

Vacation pay may be accumulated up to 4 weeks, is payable upon resignation, retirement, or death.

Upon resignation or retirement, outstanding sick leave is lost.

11. Pensions

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

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

12. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

13. Long-Term Debt – See Note 10– *Long-Term Debt*

14. Unearned Revenues

On December 31, 2022, the Port held $1,216,569 in unearned revenue. This amount represents pre-payments of rent and will be recognized as revenue in future years.

15. Net Position Classification

The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted. The Port's Statement of Net Position reports $268,215 of restricted net position for pension asset as per Note 7, *Pension*. None of the restricted net position is restricted by enabling legislation.

16. IDD – Industrial Development District

A central purpose of the Port is to create economic development and provide employment opportunities that strengthen the local economy. Port infrastructure provides a foundation that supports Kitsap County's marine-related commercial and recreational sectors and also as a transportation hub for the Olympic Peninsula.

In recognition of the key economic development role played by port districts, the Washington State Legislature adopted Chapter 53.25 RCW authorizing the establishment of Industrial Development Districts (IDD). Formation of an IDD provides a port district with specific powers, including special additional taxing authority, to facilitate development and redevelopment of lands within the boundaries of the IDD. Chapter 53.25 RCW was originally adopted in 1955 and amended in 1957 to allow multiple levy periods.

The Port of Kingston has never used this statutory authority. The Port Commission could establish an Industrial Development District (IDD) in the event this commission or future commissions decides to exercise their authority to issue a levy.

In 2021, the commission signed a resolution that would authorize the establishment of an IDD and define the boundaries of the IDD. The resolution merely affirms the Commission's intent to create an IDD but does not, in and of itself, impose any new taxes. Instead, the Commission (and subsequent commissions) will determine how much, (if any) should be levied and collected in the future.

Note 2 – Deposits and Investments

Treasury Function

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

The Port established a designated investment fund to cover the cost of asset replacement and new construction in the future referred to as Capital Projects Fund. As of December 31, 2022, the balance of the fund is $1,482,638. The Port transfers $52,500 per quarter from the operating fund to the Capital Projects Fund per resolution.

Deposits

The Port has established a direct banking service with Umpqua Bank (formerly known as Columbia Bank) for all cash and check deposits. Each week the funds are transferred via ACH to the Treasury Account.

Investments in Kitsap County Investment Pool (KCIP)

It is the Port's policy to invest all temporary cash surpluses. The Port is a voluntary participant in the Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather; oversight is provided by the State Finance committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals. The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Note 3 – Property Taxes

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

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

The Port's regular levy for 2022 was $0.1396 per $1,000 on an assessed valuation of $1,588,153,838 for a total regular levy of $222,291.

Note 4 – Capital Assets

Capital assets are assets with initial, individual cost of more than $5,000 and an estimated useful life greater than 1 year. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

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

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

- Building and improvements are assigned lives of 10 to 50 years.
- machinery and equipment 3 to 20 years.
- and software and furniture and fixtures 3 to 7 years.

Capital assets activity for the year ended December 31, 2022, was as follows:

	Beginning Balance 1/1/2022	Increases	Decreases	Ending Balance 12/31/2022
Capital assets, not being depreciated				
Land	$ 1,871,056	$ -	$ -	$ 1,871,056
Construction in progress	36,688	72,432	(16,991)	92,130
Total capital assets, not being depreciated	1,907,743	72,432	(16,991)	1,963,185
Capital assets, being depreciated				
Buildings and structures	7,365,281	27,895	(4,553,759)	2,839,416
Machinery and equipment	274,241	201,447	(92,060)	383,628
Marina and other improvements	4,208,489	7,225,669	(2,932,141)	8,502,018
Total capital assets being depreciated	11,848,011	7,455,011	(7,577,960)	11,725,063
Less: accumulated depreciation	6,065,442	541,581	(194,856)	6,412,167
Total capital assets, being depreciated, net	$ 5,782,569	$ 6,913,430	$ (7,383,104)	$ 5,312,896

The chart above shows significant increases and decreases to various asset categories. In 2022, the Port reviewed the current asset listing to reconcile it to known assets. This review was completed in two phases.

The Port purchased capital assets of $142,895, which does not include the expenses assigned to Construction in Progress of $72,432.

Note 5 – Construction and Other Significant Commitments

AS of December 31, 2022, the Port has four active construction projects.

Project	Total Spent	Remaining Commitment
Washington Blvd. Properties Development	$62,729	$4,497,271
RCO Middle Restroom	13,266	364,734
Breakwater Rock Removal	13,736	26,264
RCO Guest Floats	2,398	611,602
	$92,130	$5,499,870

Note 6 – Stewardship, Compliance, and Accountability

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

Note 7 – Pensions – State Sponsored (DRS) Plans

The following table represents the aggregate pension amounts for all plans for the year 2022:

Aggregate Pension Amounts - All Plans	
Pension liabilities	($157,289)
Pension assets	$272,707
Deferred outflows of resources	$284,098
Deferred inflows of resources	($298,694)
Pension expense/expenditures	$10,629

State Sponsored Pension Plans

Substantially all Port of Kingston 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. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

<u>Contributions</u>

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 2022 were as follows:

PERS Plan 1 **Actual Contribution Rates**	**Employer**	**Employee***
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**

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

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

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

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.25%**	**6.36%**
September – December 2022		
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%**

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

The Port's actual PERS plan contributions were $32,388 to PERS Plan 1 and $54,857 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. 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 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, 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.

Methods did not change from the prior contribution rate setting June 30, 2019, Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020, AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of 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%, 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%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	$210,136	$157,289	$111,166
PERS 2/3	$321,148	($272,707)	($760,596)

* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

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, 2022, the Port's reported its proportionate share of the net pension liabilities as follows (only report applicable plans):

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	.004359%	.005649%	.001290%
PERS 2/3	.005609%	.007353%	.001744%

Pension Expense

For the year ended December 31, 2022, the Port's recognized pension expense as follows:

	Pension Expense
PERS 1	$102,453
PERS 2/3	($91,824)
TOTAL	$10,629

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (prepare a separate table for each plan. It is optional to prepare a table for all plans in total):

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings		($26,067)
Changes of assumptions		
Changes in proportionate share		
Contributions subsequent to the measurement date	$15,964	
TOTAL	$15,964	($26,067)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 67,570	($ 6,173)
Net difference between projected and actual investment earnings		($201,614)
Changes of assumptions	$151,996	($ 39,798)
Changes in proportionate share	$ 21,867	($ 25,041)
Contributions subsequent to the measurement date	$ 26,701	
TOTAL	$ 268,134	($272,626)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 67,570	($ 6,173)
Net difference between projected and actual investment earnings		($227,681)
Changes of assumptions	$151,996	($39,798)
Changes in proportionate share	$ 21,867	($25,041)
Contributions subsequent to the measurement date	$ 42,664	
TOTAL	$284,098	($298,694)

Deferred inflow and deferred outflow amounts in these tables for all pension plans should agree to amounts presented in the financial statements.

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (prepare a separate table for each plan):

Year ended December 31:	PERS Plan 1
2023	($11,031)
2024	($10,019)
2025	($12,569)
2026	$ 7,552
2027	$ -
Thereafter	$ -
TOTAL	($26,067)

Year ended December 31:	PERS Plan 2/3
2023	($59,041)
2024	($55,113)
2025	($66,188)
2026	$ 90,568
2027	$ 29,917
Thereafter	$ 28,666
TOTAL	($31,193)

Note 8 – Risk Management (for participating member of pool)

Port of Kingston 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 to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987, pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two 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, 2022, there were 527 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris program provides for 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 are applicable 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/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays (1)
Liability:				
Comprehensive 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	$0 Fully funded by Pool	$1,000 - $100,000
Employment Practices Liability	Per Occurrence Member Aggregate	$1 million	$20 million $20 million	20% Copay(3)

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays [1]

(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.

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 $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 pursuant 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.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays [1]

(4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule 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 sublimit 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/members 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) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. 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 in excess of 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 and must give notice 60 days before renewal in order 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 contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

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

Note 9 – Changes in Long-Term Liabilities

During the year ended December 31, 2022, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2022	Additions	Reductions	Ending Balance 12/31/2022	Due Within One Year
Compensated absences	$30,855	$7,660	-	$38,515	$3,501
GO bonds payable	760,000	-	61,000	699,000	62,000
Net pension liability	53,234	104,055	-	157,289	-
Long-term unearned revenue	1,230,628	-	23,167	1,207,461	23,830
Environmental remediation liability	114,000	3,000	-	117,000	-
Asset retirement obligation	168,883	2,871	-	171,754	-
Total Long-Term Liabilities	$2,357,600	$117,587	$84,167	$2,391,019	$89,331

In accordance with generally accepted accounting principles for regulated business, the Port recognized unearned revenue receipts of $1,300,000 in 2018 that are being recognized as earned over a 35-year period. These receipts resulted from a 35-year long pier and facilities lease agreement between the Port and Kitsap Transit. The yearly amount the Port recognized for 2022 was $23,167. The outstanding balance as of December 31, 2022, was $1,207,461.

The current long-term environmental remediation liability totaled $117,000 as of December 31, 2022. See Note 13 – *Environmental Remediation Obligation* for further information.

The Asset Retirement Obligation for our underground storage tanks totaled $171,754. See Note 14 – *Asset Retirement Obligation* for further information.

Note 10 – Long-Term Debt

The Port issues obligation bonds to finance the acquisition or construction of capital assets. The Port did not issue additional general obligation debt in 2022. General obligation bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
Limited Tax General Obligation Bond, 2017	$1,000,000	1.83%-3.63%	2032	$699,000
Total General Obligation Bond				$699,000

The annual debt service requires for limited tax general obligation bond are as follows:

	Principal	Interest	Total
2023	62,000	22,420	84,420
2024	63,000	20,672	83,672
2025	64,500	18,806	83,306
2026	65,000	16,823	81,823
2027	66,500	14,766	81,266
2028-2032	378,000	37,863	415,863
	699,000	131,352	830,352

There were no outstanding revenue bonds or bond reserves as of December 31, 2022.

Note 11 – Leases

In 2022, The Port of Kingston implemented GASB Statement No. 87, Leases. Leases related to this accounting principle have a fixed term that exceeds 1 year. Therefore, moorage and other month-to-month leases are not considered in the discussion below.

Lease Type	Term Years	Remaining Months	Monthly Lease Pymt	Remaining Extentions	Rent Increases
Building Lease	6	120	1,313	Two 2-year terms	CPI Annually
Land Lease	35	162	18,101	None	CPI Annually

2022 inflows of resources from lease activity were as follows:

Lease Revenue	$ 160,602
Interest Revenue	72,365
	$ 232,967

The Port's minimum future lease rental income is noncancelable operating lease terms remaining are as follows:

Year Ended December 31	Principal	Interest	Total
2023	158,890	66,450	225,340
2024	164,132	61,996	226,128
2025	169,546	57,395	226,941
2026	175,139	52,642	227,782
2027	180,917	47,733	228,650
2028-2032	982,155	163,506	1,145,661
2033-2037	520,885	22,152	543,037
TOTAL	$2,351,665	$471,874	$2,823,539

Note 12 – Restricted Component of Net Position

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

The Port’s Statement of Net Position reports $268,215 of restricted net position for pension asset per Note 7- *Pension*. Note of the restricted net position is restricted by enabling legislation.

Note 13 – Environmental Remediation Obligations

In November 2006, the Government Accounting Standards Board issued GASB No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007.

The Port’s property has known underground contaminants resulting from the presence of a former underground fuel storage tank. The site is listed by the Department of Ecology as a Voluntary Cleanup Site. The governmental agencies having jurisdiction over the property have not required remediation of the site or removal of contaminated soil at this time, but such action will likely be required in the future if the property is developed further.

The Port's estimate of its pollution remediation obligations as of April 4, 2012, was estimated at $87,000 and an assumption of $3,000 annual increases was adopted by the Port Commission. The Port commission has set aside cash reserves for this amount by resolution on the same date. As of December 31, 2022, the amount has been adjusted to $117,000 per the projected schedule.

The Port's liability could change over time due to changes in the cost estimates, changes in technology, and changes in governing laws and regulations.

Note 14 – Asset Retirement Obligation

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2018. The Port adopted this standard in 2020.

The Port owns and operates two fuel facilities, a fuel dock at the marina and a fuel station at the end of the fishing pier which is extended onto a barge facility. The fuel dispensers are supplied by two 12,000 gallon, double walled, dielectric-coated underground storage tanks (UST) that were installed in June 2007. The Washington Administrative Code (WAC) Chapter 173-360A requires owners and operators to monitor the tanks for leakage, provide insurance coverage for all leakage, submit to periodic testing of the tanks and monitoring equipment, and provide training to staff.

The Washington State Department of Ecology (DOE) monitors and regulates underground storage tanks, including requirements for permanent closure, pursuant Washington Administrative Code (WAC) Chapter 173-360A.

The Port has chosen to measure the ARO based on the cost estimate for decommissioning and removing one 20,000-gallon gasoline underground storage tank, prepared by DH Environmental, Inc. in October 2019, for the Port of Seattle. The estimate totaled $82,382. Multiplying by the 2 smaller tanks the Port owns, resulting in a liability of $164,764 for 2020. This amount will be reviewed annually to account for the effects of inflation or deflation, and to consider any factors significantly affecting the estimate, such as, changes in technology, changes in legal or regulatory requirements, and changes to the type of equipment or services that may be used to decommission the underground storage tanks.

GASB 83 is retroactive to the date of the internal obligating event in June of 2007 and is effective over the life of the underground storage tanks. The tanks originally had a 20-year estimated life, which will be reevaluated in 2023. Underground storage tanks typically have estimated useful lives ranging from 30-40 years.

The Port has pollution liability coverage with Mid-Continent Casualty Company. This policy covers $1,000,000 per pollution incident with $1,000,000 Annual Aggregate.

Upon retirement of those underground storage tanks, The Port will fund the decommissioning out of current reserves or the Capital Projects Fund.

The ARO liability for 2022 totaled $171,754.

Note 15 – Contingencies and Litigation

In the opinion of management, the Port insurance policies are adequate to pay all known or pending claims.

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

Note 16 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The Port's primary focus during these uncertain times has been to ensure the safety and health of its employees, while providing essential services and to continue to be an economic driver in the community. The Port proactively implemented safety measures in 2020 and continued to follow CDC Guidelines throughout 2022. The Port purchased in-home COVID-19 tests for all staff. Any employee that showed signs or symptoms of COVID or had been in contact with some that tested positive, were directed to take a test prior to returning to work. If they tested positive, they were directed to notify their manager immediately and follow the current CDC Guidelines. Per the Port Closure Pay Policy established in 2020, the employee would receive closure pay in lieu of sick leave.

Revenue streams such as parking, are slowly coming back but have not yet reached pre-COVID levels. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed.

Note 17 – Prior Period Adjustment

During 2022 the Port recorded the following prior period adjustment:

In the statement of revenue and expenses the Port recognized revenue of $161,070 for the portion of sales taxes paid on fuel prior to 2022. Amended tax returns were filed through the Washington State Department of Revenue.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 1
As of June 30, 2023

	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability (asset)	.004009%	.004067%	.004359%	.005649%	.004581%
Employer's proportionate share of the net pension liability	$154,160	$143,587	$53,234	$157,289	$104,572
Employer's covered employee payroll	$575,877	$613,546	$682,646	$846,706	$894,715
Employer's proportionate share of the net pension liability as a percentage of covered employee liability	27%	23%	8%	19%	12%
Plan fiduciary net position as a percentage of the total pension asset	67.12%	68.64%	88.74%	76.56%	80.16%

Schedule of Employer Contributions
For Year Ending December 31, 2023

	2019	2020	2021	2022	2023
Statutorily or contractually required contributions	$28,078	$30,327	$31,069	$32,388	$32,288
Contributions in relation to the statutorily or contractually required contributions	$28,078	$30,327	$31,069	$32,388	$32,388
Contribution deficiency (excess)	$0.00	$ 0.00	$ 0.00	$0.00	$0.00

Covered employer payroll	$571,823	$680,602	$734,414	$865,797	$953,664
Contributions as a percentage of covered employee payroll	5%	4%	4%	4%	3%

Notes to Schedule:

Factors that significantly affect trends in the amount reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 to fund its unfunded actuarially accrued liability.

*This schedule will be built prospectively until it contains 10 years of data.

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

Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 2/3
As of June 30, 2023

	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability (asset)	.005226%	.005275%	.005609%	.007353%	.005903%
Employer's proportionate share of the net pension liability/(asset)	$50,763	$67,464	($558,747)	($272,707)	($241,945)
Employer's covered employee payroll	$575,877	$613,546	$682,646	$846,706	$894,715
Employer's proportionate share of the net pension liability as a percentage of covered employee liability	9%	11%	(82%)	(32%)	(27%)
Plan fiduciary net position as a percentage of the total pension asset	97.77%	97.22%	120.29%	106.73%	107.02%

Schedule of Employer Contributions
For Year Ending December 31, 2023

	2019	2020	2021	2022	2023
Statutorily or contractually required contributions	$44,347	$53,904	$51,849	$54,857	$60,653
Contributions in relation to the statutorily or contractually required contributions	$44,347	$53,904	$51,849	$54,857	$60,653
Contribution deficiency (excess)	$0.00	$0.00	$0.00	$0.00	$0.00
Covered employer payroll	$571,823	$680,602	$734,414	$865,797	$953,664
Contributions as a percentage of covered employee payroll	8%	7%	7%	6%	6%

Notes to Schedule:

Factors that significantly affect trends in the amount reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 to fund its unfunded actuarially accrued liability.

*This schedule will be built prospectively until it contains 10 years of data.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 1
As of June 30, 2022

	2019	2020	2021	2022
Employer's proportion of the net pension liability (asset)	.004009%	.004067%	.004359%	.005649%
Employer's proportionate share of the net pension liability	$154,160	$143,587	$53,234	$157,289
Employer's covered employee payroll	$575,877	$613,546	$682,646	$846,706
Employer's proportionate share of the net pension liability as a percentage of covered employee liability	27%	23%	8%	19%
Plan fiduciary net position as a percentage of the total pension asset	67.12%	68.64%	88.74%	76.56%

Schedule of Employer Contributions
For Year Ending December 31, 2022

	2019	2020	2021	2022
Statutorily or contractually required contributions	$28,078	$30,327	$31,069	$32,388
Contributions in relation to the statutorily or contractually required contributions	$28,078	$30,327	$31,069	$32,388
Contribution deficiency (excess)	$0.00	$ 0.00	$ 0.00	$0.00
Covered employer payroll	$571,823	$680,602	$734,414	$865,797
Contributions as a percentage of covered employee payroll	5%	4%	4%	4%

Notes to Schedule:

Factors that significantly affect trends in the amount reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 to fund its unfunded actuarially accrued liability.

*This schedule will be built prospectively until it contains 10 years of data.

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

Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 2/3
As of June 30, 2022

	2019	2020	2021	2022
Employer's proportion of the net pension liability (asset)	.005226%	.005275%	.005609%	.007353%
Employer's proportionate share of the net pension liability/(asset)	$50,763	$67,464	($558,747)	($272,707)
Employer's covered employee payroll	$575,877	$613,546	$682,646	$846,706
Employer's proportionate share of the net pension liability as a percentage of covered employee liability	9%	11%	(82%)	(32%)
Plan fiduciary net position as a percentage of the total pension asset	97.77%	97.22%	120.29%	106.73%

Schedule of Employer Contributions
For Year ending December 31, 2022

	2019	2020	2021	2022
Statutorily or contractually required contributions	$44,347	$53,904	$51,849	$54,857
Contributions in relation to the statutorily or contractually required contributions	$44,347	$53,904	$51,849	$54,857
Contribution deficiency (excess)	$0.00	$0.00	$0.00	$0.00

Covered employer payroll	$571,823	$680,602	$734,414	$865,797
Contributions as a percentage of covered employee payroll	8%	7%	7%	6%

Notes to Schedule:

Factors that significantly affect trends in the amount reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 to fund its unfunded actuarially accrued liability.

*This schedule will be built prospectively until it contains 10 years of data.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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