



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Port Townsend

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

Published December 28, 2020

Report No. 1027605





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

December 28, 2020

Board of Commissioners
Port of Port Townsend
Port Townsend, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	30

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

**Port of Port Townsend
January 1, 2018 through December 31, 2019**

Board of Commissioners
Port of Port Townsend
Port Townsend, 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 Port Townsend, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated December 23, 2020.

We issued an unmodified opinion on the fair presentation of the Port's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Port using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 5 to the 2019 financial statements, during the year ended December 31, 2019, the Port adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port.

As discussed in Note 9 to the 2018 financial statements, the Port has elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

Pat McCarthy
State Auditor
Olympia, WA

December 23, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Port Townsend January 1, 2018 through December 31, 2019

Board of Commissioners
Port of Port Townsend
Port Townsend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Port Townsend, for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Port of Port Townsend has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Port of Port Townsend, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Port used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port of Port Townsend, as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 5 to the 2019 financial statements, during the year ended December 31, 2019, the Port adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Port. Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the 2018 financial statements, the Port has elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

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

Pat McCarthy
State Auditor
Olympia, WA

December 23, 2020

FINANCIAL SECTION

Port of Port Townsend January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019

Fund Resources and Uses Arising from Cash Transactions – 2018

Notes to Financial Statements – 2019

Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019

Schedule of Liabilities – 2018

Port of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

Beginning Cash and Investments

30810	Reserved	992,234
30880	Unreserved	524,267
388 / 588	Net Adjustments	-

Revenues

310	Taxes	1,004,079
320	Licenses and Permits	-
330	Intergovernmental Revenues	444,787
340	Charges for Goods and Services	4,953,533
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,644,397
Total Revenues:		8,046,796

Expenditures

540	Transportation	4,905,238
Total Expenditures:		4,905,238
Excess (Deficiency) Revenues over Expenditures:		3,141,558

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	571,865
381, 382, 395, 398	Other Resources	209,925
Total Other Increases in Fund Resources:		781,790

Other Decreases in Fund Resources

594-595	Capital Expenditures	852,905
591-593, 599	Debt Service	1,010,338
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	579,079
581, 582	Other Uses	80,896
Total Other Decreases in Fund Resources:		2,523,218

Increase (Decrease) in Cash and Investments: 1,400,130

Ending Cash and Investments

5081000	Reserved	1,233,195
5088000	Unreserved	1,683,435
Total Ending Cash and Investments		2,916,630

Port of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

Beginning Cash and Investments

30810	Reserved	872,234
30880	Unreserved	929,133
388 / 588	Net Adjustments	(138,264)

Revenues

310	Taxes	980,645
320	Licenses and Permits	-
330	Intergovernmental Revenues	401,091
340	Charges for Goods and Services	4,622,140
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,351,968
Total Revenues:		<u>7,355,844</u>

Expenditures

540	Transportation	5,323,944
Total Expenditures:		<u>5,323,944</u>
Excess (Deficiency) Revenues over Expenditures:		2,031,900

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	600,596
381, 382, 395, 398	Other Resources	83,772
Total Other Increases in Fund Resources:		<u>684,368</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	795,026
591-593, 599	Debt Service	1,459,564
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	608,280
Total Other Decreases in Fund Resources:		<u>2,862,870</u>

Increase (Decrease) in Cash and Investments: **(146,602)**

Ending Cash and Investments

5081000	Reserved	992,234
5088000	Unreserved	524,267
Total Ending Cash and Investments		<u>1,516,501</u>

Note 1 - Summary of Significant Accounting Policies

The Port of Port Townsend was incorporated in 1924 and operates under the laws of the state of Washington applicable to a port district. The Port is a special purpose government and shares the same geographic boundaries as Jefferson County, Washington. The Port is independent from Jefferson County government and is administered by a Board of Commissioners with three (3) members each elected by Port district voters. The county levies and collects taxes on behalf of the Port.

The Port owns and operates the Port Townsend Marine Industrial Park, the Port Townsend Boat Haven, and the Port Townsend Ship Yard. These contiguous properties provide marina and dock facilities as well as marine related commercial businesses, and ship yard haul out and services to vessels up to 300 tons. The Port also owns and operates the Jefferson County International Airport, a 300-acre general aviation facility located seven (7) miles from Port Townsend, Washington. Adjoining the airport is 25 acres which is planned for future industrial park development. The Port also owns and operates the 30-acre Point Hudson facility, located at the east end of downtown Port Townsend. This facility offers approximately 4,000 linear feet of boat moorage, 50 recreational vehicles sites, and additional marine related and commercial property rentals. In Quilcene, the Port owns and operates a small, warm water marina with a boat ramp, and alongside it is a leased property for an oyster cultivating operation. Finally, the Port owns six (6) additional recreational and water use properties throughout Jefferson County.

Management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the district's reporting entity because of the existence of its operational or financial relationship with the district.

The Industrial Development Corporation (IDC), a public corporation, is authorized to facilitate the issuance of tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived because of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they are used. There have been no IDC bond issues since 1988.

The IDC is governed by the Port's three (3) member Commission. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 2701 Jefferson Street, Port Townsend, WA.

The Port reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as

supplementary information.

- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

The Port maintains its accounts on the basis of funds, specifically an enterprise fund. This type of fund accounts for operations that provide goods or services to the public and are supported primarily through user charges and uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law RCW 36.40.200, Jefferson County is allowed and has opted to use an open period to recognize expenditures paid during twenty (20) days after the close of the fiscal year for claims incurred during the previous period. Since Jefferson County acts as the Port's treasurer, the Port is allowed and has opted to follow the county's policy of using the same twenty (20) day open period for expenses.

C. Cash and Investments

See Note 2, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$10,000 and an estimated useful life more than one (1) year. Capital assets and inventory are recorded as capital expenditures at the time of purchase.

E. Compensated Absences

Vacation leave may be accumulated up to 320 days and is payable upon separation or retirement, if the employee has worked at least six (6) continuous months as a regular employee with the Port. Sick leave policy allows employees to cash out up to 50% of their accrued sick leave hours, dependent on longevity with the Port, upon termination of employment, and capped at a maximum cash out of 250 hours.

The total compensated absences balance as of December 31, 2019 was \$173,413. See Schedule 09, Schedule of Liabilities.

F. Long-Term Debt

See Note 4, *Long Term Debt*.

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Port Commission via resolution. When expenditures that meet restrictions are incurred, the Port intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of \$1,233,195 as of December 31, 2019. The details of the total reserve balances are as follows:

Hazardous Waste Reserve	\$ 25,000
Contingency Reserve	75,000
Unemployment Reserve	10,000
Operating Reserve	180,000
Port Townsend Boat Haven Reserve	562,261
Port-Wide Capital Reserve	<u>380,934</u>
Total Reserves	\$ 1,233,195

Note 2 – Deposits and Investments

It is the Port's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Port or its agent in the government's name.

Most Port investments are with the Washington State Local Government Investment Pool (LGIP), which is authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The LGIP is reported at amortized cost which approximates fair value. Investments and deposits by type at December 31, 2019 are as follows:

<u>Type of Deposit/Investment</u>	<u>Port's own Deposits and investments</u>	Investments held by Port as an agent for other local governments, Individuals or private organizations.	Total
LGIP	<u>\$ 1,452,306</u>	<u>\$ 0</u>	<u>\$ 1,452,306</u>
General Fund (warrants) (held by Jefferson County)	<u>\$ 1,308,963</u>	<u>\$ 0</u>	<u>\$ 1,308,963</u>
Kitsap Bank (depository)	<u>\$ 97,209</u>	<u>\$ 0</u>	<u>\$ 97,209</u>
Kitsap Bank (checking)	<u>\$ 52,000</u>	<u>\$ 0</u>	<u>\$ 52,000</u>
U.S. Bank (I.D.C. CD)	<u>\$ 3,656</u>	<u>\$ 0</u>	<u>\$ 3,656</u>
U.S. Bank (Quilcene checking)	<u>\$ 1,134</u>	<u>\$ 0</u>	<u>\$ 1,134</u>
U.S. Bank (I.D.C checking)	<u>\$ 1,361</u>	<u>\$ 0</u>	<u>\$ 1,361</u>

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the Jefferson County Treasurer. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port's regular levy for the year 2019 was \$0.180729 per \$1,000 on an assessed valuation of \$5,577,421,241 for a total regular levy of \$1,008,000.

Note 4 – Long Term Debt

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for year ended December 31, 2019.

The future debt service requirements for general obligation (G.O.) bonds are as follows:

G.O. Bonds	Principal	Interest
2020	\$ 755,000	\$ 276,488
2021	785,000	250,888
2022	810,000	222,688
2023	835,000	193,588
2024	865,000	163,513
2025-2029	2,530,000	386,500
Totals	\$ 6,580,000	\$ 1,493,663

Note 5 – OPEB Plans

The Port implemented OPEB reporting in 2019. The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The Port had 13 active plan members and four (4) retired plan members as of December 31, 2019. As of December 31, 2019, the Port's total OPEB liability was \$865,135 as calculated using the alternative measurement method. The Port contributed \$11,067 to the plan for the year ended December 31, 2019.

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all Port full-time and qualifying part-time employees participate in the PERS Plan II and PERS Plan III, which is administered by the Washington State Department of Retirement Systems (DRS), 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, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

At June 30, 2019 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$99,579	0.013888%	\$534,043
PERS 2/3	\$146,556	0.017944%	\$174,297

Note 7 – Risk Management

Port of Port Townsend is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services. Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$5,000 of the amount of each claim, while Enduris is responsible for the remaining \$995,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$5,000 of the amount of each claim, while Enduris is responsible for the remaining \$245,000 on a property loss.

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

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

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

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

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Note 8 – Leases

The Port leases a significant portion of airport, industrial and marine terminal land to tenants under operating leases expiring in various years through the year 2057. Minimum future rental revenue on operating leases is as follows:

Years Ending December 31	Lease Amounts
2020	\$ 978,831
2021	843,395
2022	734,958
2023	705,132
2024	618,987
2025-2057	6,393,848
Totals	\$10,275,151

Note 9 – Other Disclosures

In March of 2019, the Port Commission decided to take a second multi-year Industrial Development Levy (IDD) as allowed per RCW 53.36.160. An IDD levy is capped at \$0.45 per \$1,000 of property AV annually for a six (6) year period and may be taken over a 20-year period with the same cap [a six (6) year calculation with a \$0.45 per year cap]. As allowed by section (2) of this RCW, there were enough registered voters that petitioned this intent to levy and it was, therefore, put to the voters on the November 2019 ballot. The levy passed in the November 2019 election and the Port Commission subsequently levied \$0.13 per \$1,000 for the tax year 2020. The 2020 IDD levy was estimated to be \$809,354.

Note 10 - Subsequent Event

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus, Covid-19. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The Port responded to this event by closing offices to the public and only doing business via phone, email and USPS mail, and providing staff with personal protective equipment, hand sanitizer, sanitizing wipes, etc. A revised budget model was developed to address the potential financial impact of Port operations. Ultimately, operations were not impacted as significantly as initially estimated. As we move into 2021, the Port continues to be conservative in its revenue projections, while closely monitoring expenses since the full effect of the virus is yet unknown.

Note 1 - Summary of Significant Accounting Policies

The Port of Port Townsend was incorporated in 1924 and operates under the laws of the state of Washington applicable to a port district. The Port is a special purpose government and shares the same geographic boundaries as Jefferson County, Washington. The Port is independent from Jefferson County government and is administered by a Board of Commissioners with three (3) members each elected by Port district voters. The county levies and collects taxes on behalf of the Port.

The Port owns and operates the Port Townsend Marine Industrial Park, the Port Townsend Boat Haven, and the Port Townsend Ship Yard. These contiguous properties provide marina and dock facilities as well as marine related commercial businesses, and ship yard haul out and services to vessels up to 300 tons. The Port also owns and operates the Jefferson County International Airport, a 300-acre general aviation facility located seven miles from Port Townsend, Washington. Adjoining the airport is 25 acres which is planned for future industrial park development. The Port also owns and operates the 30-acre Point Hudson facility, located at the east end of downtown Port Townsend. This facility offers approximately 4,000 linear feet of boat moorage, 50 recreational vehicles sites, and additional marine related and commercial property rentals. In Quilcene, the Port owns and operates a small, warm water marina with a boat ramp, and alongside it is a leased property for an oyster cultivating operation. Finally, the Port owns six (6) additional recreational and water use properties throughout Jefferson County.

Management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the district's reporting entity because of the existence of its operational or financial relationship with the district.

The Industrial Development Corporation (IDC), a public corporation, is authorized to facilitate the issuance of tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived because of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they are used. There have been no IDC bond issues since 1988.

The IDC is governed by the Port's three (3) member Commission. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 2701 Jefferson Street in Port Townsend, WA.

The Port reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as

supplementary information.

- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

The Port maintains its accounts on the basis of funds, specifically an enterprise fund. This type of fund accounts for operations that provide goods or services to the public and are supported primarily through user charges and uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law RCW 36.40.200, Jefferson County is allowed and has opted to use an open period to recognize expenditures paid during twenty (20) days after the close of the fiscal year for claims incurred during the previous period. Since Jefferson County acts as the Port's treasurer, the Port is allowed and has opted to follow the county's policy of using the same twenty (20) day open period for expenses.

C. Cash and Investments

See Note 2, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life more than one (1) year. Capital assets and inventory are recorded as capital expenditures at the time of purchase.

E. Compensated Absences

Vacation leave may be accumulated up to 320 days and is payable upon separation or retirement, if the employee has worked at least six (6) continuous months as a regular employee with the Port. Sick leave policy allows employees to cash out up to 50% of their accrued sick leave hours, dependent on longevity with the Port, upon termination of employment, and capped at a maximum cash out of 250 hours.

The total compensated absences balance as of December 31, 2018 was \$163,134. See Schedule 09, Schedule of Liabilities.

F. Long-Term Debt

See Note 4, *Long Term Debt*.

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Port Commission via resolution. When expenditures that meet restrictions are incurred, the Port intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of \$992,234 as of December 31, 2018. These reserve dollars are per Commission resolutions, as follows:

Hazardous Waste Reserve	\$ 25,000
Contingency Reserve	75,000
Unemployment Reserve	10,000
Port Townsend Boat Haven Reserve	592,234
Port-Wide Capital Reserve	<u>290,000</u>
Total Reserves	\$992,234

Note 2 – Deposits and Investments

It is the Port's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Port or its agent in the government's name.

Most Port investments are with the Washington State Local Government Investment Pool (LGIP), which is authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The LGIP is reported at amortized cost which approximates fair value. Investments and deposits by type at December 31, 2018 are as follows:

<u>Type of Deposit/Investment</u>	<u>Port's own Deposits and investments</u>	Investments held by Port as an agent for other local governments, Individuals or private organizations.	Total
LGIP	\$ <u>1,225,618</u>	\$ <u>0</u>	\$ <u>1,225,618</u>
General Fund (warrants) (held by Jefferson County)	\$ <u>129,387</u>	\$ <u>0</u>	\$ <u>129,387</u>
Kitsap Bank (depository)	\$ <u>101,301</u>	\$ <u>0</u>	\$ <u>101,301</u>
Kitsap Bank (checking)	\$ <u>52,000</u>	\$ <u>0</u>	\$ <u>52,000</u>
U.S. Bank (I.D.C. CD)	\$ <u>3,654</u>	\$ <u>0</u>	\$ <u>3,654</u>
U.S. Bank (Quilcene checking)	\$ <u>3,180</u>	\$ <u>0</u>	\$ <u>3,180</u>
U.S. Bank (I.D.C checking)	\$ <u>1,361</u>	\$ <u>0</u>	\$ <u>1,361</u>

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the Jefferson County Treasurer. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port's regular levy for the year 2018 was \$0.192365 per \$1,000 on an assessed valuation of \$5,111,357,748 for a total regular levy of \$983,244.

Note 4 – Long Term Debt

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for year ended December 31, 2018.

The debt service requirements for general obligation (G.O.) bonds are as follows:

G.O. Bonds	Principal	Interest
2019	\$ 715,000	\$ 300,588
2020	755,000	276,488
2021	785,000	250,888
2022	810,000	222,688
2023	835,000	193,588
2024 - 2029	3,395,000	550,013
Total	\$ 7,295,000	\$ 1,794,250

Note 5 – OPEB Plans

The Port has a commitment to pay for post-employment benefits for employees that participate in the Public Employment Benefits Board (PEBB) healthcare coverage. These benefits include medical, dental, vision, LTD, and life insurance. No retirees received benefits during the year and \$0 was paid out for those benefits during the year.

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all Port full-time and qualifying part-time employees participate in the PERS Plan II and PERS Plan III, which is administered by the Washington State Department of Retirement Systems (DRS), 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, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

At June 30, 2018 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$101,806	0.015231%	\$680,222
PERS 2/3	\$150,092	0.019452%	\$332,126

Note 7 – Risk Management

Port of Port Townsend is a member of Enduris. Port of Port Townsend is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 549 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$5,000 of the amount of each claim, while Enduris is responsible for the remaining \$995,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$5,000 of the amount of each claim, while Enduris is responsible for the remaining \$245,000 on a property loss.

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

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

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

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

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

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

Note 8 – Leases

The Port leases a significant portion of airport, industrial and marine terminal land to tenants under operating leases expiring in various years through the year 2057. Minimum future rental revenue on operating leases is as follows:

Year Ending	Amount
December 31	
2019	\$ 778,398
2020	720,832
2021	643,209
2022	534,495
2023	510,982
2024 - 2057	5,668,164
Total	\$ 8,856,081

Note 9 – Other Disclosures

In January 2019, the Port Commission unanimously voted to change from full accrual basis of accounting to a cash basis of accounting for reporting purposes. Transactions having cash impacts in 2018, but

recorded on an accrual basis in previous years, have generally been adjusted to ensure the financial statements include a fair presentation of a full twelve months of revenues and expenses on the cash basis of reporting. Such transactions include, but may not be limited to, property taxes, pre-paid expenses, pre-paid insurance and unearned revenue. After making the adjustments for cash basis presentation for fiscal year 2018, the only notable variances when comparing from the prior year financial activity (prepared on an accrual basis), was beginning unreserved cash. The following adjustments were required to beginning unreserved cash:

- \$22,245 addition for 2017 expenses properly posted back to 2017 for the accrual presentation of the 2017 report, and
- \$46,460 reduction for 2018 beginning warrants payable which does not reduce cash in an accrual presentation but is properly reduced in cash presentation.

Note 10 – Prior Period Adjustment

The prior period adjustment in the amount of \$138,264 is for items related to 2017 and years prior in warrants payable. The prior period adjustment corrects warrants payable in this amount and debited fund balance; this was entered as of 12/31/2018. This does not change the ending 2017 balance or beginning 2018 balance and therefore needed a manual adjustment to the financial statements.

**Port of Port Townsend
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2010 LTGO Bond	12/1/2029	3,870,000	-	265,000	3,605,000
251.11	2015 LTGO Bond	7/1/2025	3,425,000	-	450,000	2,975,000
Total General Obligation Debt/Liabilities:			7,295,000	-	715,000	6,580,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		163,134	35,706	25,511	173,329
264.30	Pension Liabilities		1,012,347	-	304,007	708,340
264.40	OPEB Liabilities		-	865,135	-	865,135
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,175,481	900,841	329,518	1,746,804
Total Liabilities:			8,470,481	900,841	1,044,518	8,326,804

**Port of Port Townsend
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2010 LTGO Bond	12/1/2029	4,105,000	-	235,000	3,870,000
251.11	2015 LTGO Bond	7/1/2025	3,855,000	-	430,000	3,425,000
Total General Obligation Debt/Liabilities:			7,960,000	-	665,000	7,295,000
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	2013 Revenue Bond	11/1/2018	409,507	-	409,507	-
259.12	Compensated Absences		180,245	29,692	46,803	163,134
264.30	Pension Liabilities		1,352,474	-	340,127	1,012,347
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,942,226	29,692	796,437	1,175,481
Total Liabilities:			9,902,226	29,692	1,461,437	8,470,481

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov