



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements and Federal Single Audit Report

## Port of Port Townsend

For the period January 1, 2020 through December 31, 2020

*Published December 30, 2021*

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

December 30, 2021

Board of Commissioners  
Port of Port Townsend  
Port Townsend, Washington

**Report on Financial Statements and Federal Single Audit**

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

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

Sincerely,

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](mailto:webmaster@sao.wa.gov).*

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Port of Port Townsend January 1, 2020 through December 31, 2020

#### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

##### Financial Statements

We issued an unmodified opinion on the fair presentation of the Port’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

##### Internal Control over Financial Reporting:

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

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

##### Federal Awards

##### Internal Control over Major Programs:

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

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

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

## Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program
20.106	COVID-19 – Airport Improvement Program

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

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

## SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

## INDEPENDENT AUDITOR'S REPORT

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

### **Port of Port Townsend January 1, 2020 through December 31, 2020**

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 year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated December 22, 2021.

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 8 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

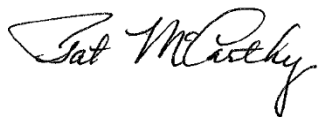
## COMPLIANCE AND OTHER MATTERS

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.



Pat McCarthy, State Auditor  
Olympia, WA  
December 22, 2021

## INDEPENDENT AUDITOR'S REPORT

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

### **Port of Port Townsend January 1, 2020 through December 31, 2020**

Board of Commissioners  
Port of Port Townsend  
Port Townsend, Washington

## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited the compliance of the Port of Port Townsend, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2020. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Purpose of this Report

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

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 22, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Port of Port Townsend January 1, 2020 through December 31, 2020**

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 year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed on page 14.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 year ended December 31, 2020, 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, 2020, or the changes in financial position or cash flows thereof for the year 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 8 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is also 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 22, 2021 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.



Pat McCarthy, State Auditor

Olympia, WA

December 22, 2021

## **FINANCIAL SECTION**

### **Port of Port Townsend January 1, 2020 through December 31, 2020**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2020  
Notes to the Financial Statements – 2020

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2020  
Schedule of Expenditures of Federal Awards – 2020  
Notes to the Schedule of Expenditures of Federal Awards – 2020

**Port of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	2,916,630
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	1,892,542
320	Licenses and Permits	-
330	Intergovernmental Revenues	3,580,360
340	Charges for Goods and Services	4,762,202
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,463,352
Total Revenues:		11,698,456

**Expenditures**

540	Transportation	5,148,856
Total Expenditures:		5,148,856
Excess (Deficiency) Revenues over Expenditures:		6,549,600

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	1,650,000
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	771,382
Total Other Increases in Fund Resources:		2,421,382

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	4,491,247
591-593, 599	Debt Service	2,433,681
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	611,745
Total Other Decreases in Fund Resources:		7,536,673

**Increase (Decrease) in Cash and Investments: 1,434,309**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	676,972
50841	Committed	1,385,090
50851	Assigned	2,288,877
50891	Unassigned	-
Total Ending Cash and Investments		4,350,939

**PORT OF PORT TOWNSEND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**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 Boat Yard. These contiguous properties provide marina and dock facilities as well as marine related commercial businesses, and vessel 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 presented using classifications that are similar to the ending balance classification 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 the first 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, 2020 was \$240,478. See Schedule 09, Schedule of Liabilities.

F. Long-Term Debt

See Note 4, *Long Term Debt*.

**G. Restricted and Committed Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments are reported as restricted or committed when 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 such restrictions are incurred, the Port intends to use those resources first before using unassigned amounts.

Restrictions and commitments of Ending Cash and Investments consist of \$2,062,062 as of December 31, 2020. The details of the total ending restricted, committed and assigned balances are as follows:

Leasehold Excise Tax	128,441
Industrial Development District reserve	548,531
Port-Wide Capital reserve	501,646
Port Townsend Boat Haven reserve	468,444
Operating reserve	315,000
Emergency reserve	<u>100,000</u>
Total	\$ 2,062,062

**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 pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. The LGIP is reported 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.

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](http://www.tre.wa.gov).

Investments and deposits by type as of December 31, 2020 are as follows:

<u>Type of Deposit/Investment</u>	<u>Port's own Deposits and investments</u>	<u>Investments held by Port as an agent for other local governments, Individuals or private organizations.</u>	<u>Total</u>
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LGIP	\$ 2,108,183	\$ 0	\$ 2,108,183
General Fund (warrants) (held by Jefferson County)	2,066,295	0	2,066,295
Kitsap Bank (depository)	116,656	0	116,656
Kitsap Bank (checking)	52,000	0	52,000
U.S. Bank (I.D.C. CD)	3,659	0	3,659
U.S. Bank (Quilcene checking)	2,786	0	2,786
U.S. Bank (I.D.C checking)	1,361	0	1,361
<b>Total</b>	<b>\$ 4,350,939</b>	<b>\$ 0</b>	<b>\$ 4,350,939</b>

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the Port would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The Port's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered, or held by the Port in the government's name.

### 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 2020 was \$0.17 per \$1,000 on an assessed valuation of \$5,980,649,107 for a total regular levy of \$1,030,000 as of budget adoption.

Jefferson County voters passed an Industrial Development District (IDD) Levy for the Port in the November 2019 election. The year 2019 became the "base" year for the levy with first collection in the year 2020. The IDD levy for the year 2020 was \$0.13 per \$1,000 on an assessed valuation of \$5,980,649,107. Collected IDD levy tax for 2020 was \$862,542.

### 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, 2020.

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

<b>G.O. Bonds</b>	<b>Principal</b>	<b>Interest</b>
<b>2021</b>	\$ 785,000	\$ 243,763
<b>2022</b>	810,000	215,338
<b>2023</b>	835,000	186,088
<b>2024</b>	865,000	155,788
<b>2025</b>	900,000	124,288
<b>2026-2029</b>	1,630,000	254,188
<b>Totals</b>	<b>\$ 5,825,000</b>	<b>\$ 1,179,450</b>

#### 2020 Unused Line of Credit

On March 25, 2020, the Port Commission passed Res. 20-718 for an \$3,000,000 LTGO Bond to evidence a revolving line of credit. At fiscal year-end, the Port had \$2,750,000 available in the unused portion of this line of credit. As of December 31, 2020, the outstanding balance was \$250,000 and was subsequently paid off on January 8, 2021.

On January 13, 2021, the 2020 LTGO Bond evidencing the \$3,000,000 line of credit was replaced via Res. 741-21 with a 2021 LTGO Bond evidencing a \$7,000,000 line of credit.

#### **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 16 active plan members and four (4) retired plan members as of measurement date June 30, 2020. As of December 31, 2020, the Port's total OPEB liability was \$1,568,111 as calculated using the alternative measurement method. The Port contributed \$17,716 to the plan for the year ended December 31, 2020.

#### **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](http://www.drs.wa.gov).

At June 30, 2020 (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	\$102,072	0.014084%	\$497,241
PERS 2/3	\$168,134	0.018251%	\$233,420

#### **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, 2020, 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 \$800 million 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.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

#### **Note 8 – Covid-19 Pandemic**

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 on 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.

**Port of Port Townsend  
Schedule of Liabilities  
For the Year Ended December 31, 2020**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
239.70	2010 LTGO Bond	12/1/2029	3,605,000	-	295,000	3,310,000
239.70	2015 LTGO Bond	7/1/2025	2,975,000	-	460,000	2,515,000
239.70	2020 LTGO Bond	3/1/2022	-	1,650,000	1,400,000	250,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>6,580,000</b>	<b>1,650,000</b>	<b>2,155,000</b>	<b>6,075,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		173,329	81,961	14,812	240,478
264.40	OPEB		865,135	702,976	-	1,568,111
264.30	Pension Liabilities		708,340	22,321	-	730,661
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,746,804</b>	<b>807,258</b>	<b>14,812</b>	<b>2,539,250</b>
<b>Total Liabilities:</b>			<b>8,326,804</b>	<b>2,457,258</b>	<b>2,169,812</b>	<b>8,614,250</b>

**Port of Port Townsend  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0134-015- 2018	-	69,836	69,836	-	4
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0134-016- 2019	-	98,110	98,110	-	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0134-017- 2020	-	3,122,801	3,122,801	-	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Airport Improvement Program	20.106	3-53-0134-018- 2020 CARES	-	30,000	30,000	-	
<b>Total CFDA 20.106:</b>				-	<b>3,320,747</b>	<b>3,320,747</b>	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Jefferson County)	COVID 19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	NA	2,494	-	2,494	-	
<b>Total Federal Awards Expended:</b>				<b>2,494</b>	<b>3,320,747</b>	<b>3,323,241</b>	-	



**Port of Port Townsend**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2020**

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the Port's financial statements. The Port adopted the Cash Basis of accounting as of 2018.

Note 2 – Federal de Minimus Indirect Cost Rate

The Port has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Note 3 – Program Costs

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

Note 4 – Reporting Year

All the federal grants listed are for the current year expenditures, except for the Airport Improvement Program grant (numbered 3-53-0134-015-2018) costs listed in the amount of \$69,836. The 2019 Schedule of Expenditures of Federal Awards was under reported by that amount, however, this did not increase the Port's total 2019 total federal expenditure reporting amount on the SEFA to trigger a single audit.

## 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](http://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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