



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Port Townsend

For the period January 1, 2021 through December 31, 2022

Published September 14, 2023

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

September 14, 2023

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,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Port Townsend January 1, 2022 through December 31, 2022

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>ALN</u>	<u>Program or Cluster Title</u>
11.307	Economic Development Cluster – Economic Adjustment Assistance

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, 2021 through December 31, 2022

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated September 6, 2023.

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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this

report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

September 6, 2023

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, 2022 through December 31, 2022

Board of Commissioners
Port of Port Townsend
Port Townsend, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Port of Port Townsend, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2022. The Port's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Port's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Port's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

September 6, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Port Townsend January 1, 2021 through December 31, 2022

Board of Commissioners
Port of Port Townsend
Port Townsend, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Port of Port Townsend, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Port has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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, 2022 and 2021, on the basis of accounting described in Note 1.

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, 2022 and 2021, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

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

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the Port in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 BARS Manual 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedules of Liabilities are 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2023 on our consideration of the Port's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

September 6, 2023

FINANCIAL SECTION

Port of Port Townsend January 1, 2021 through December 31, 2022

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2022
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Schedule of Liabilities – 2022
Schedule of Liabilities – 2021
Schedule of Expenditures of Federal Awards – 2022
Notes to the Schedule of Expenditures of Federal Awards – 2022

Port of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

Beginning Cash and Investments

308	Beginning Cash and Investments	6,238,903
388 / 588	Net Adjustments	-

Revenues

310	Taxes	3,837,114
320	Licenses and Permits	-
330	Intergovernmental Revenues	350,901
340	Charges for Goods and Services	5,869,138
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,969,946
Total Revenues:		12,027,099

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	6,464,999
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		6,464,999
Excess (Deficiency) Revenues over Expenditures:		5,562,100

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	3,823,644
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	768,025
Total Other Increases in Fund Resources:		4,591,669

Other Decreases in Fund Resources

594-595	Capital Expenditures	6,176,800
591-593, 599	Debt Service	1,025,338
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	815,846
Total Other Decreases in Fund Resources:		8,017,984

Increase (Decrease) in Cash and Investments: 2,135,785

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	4,605,621
50841	Committed	3,249,864
50851	Assigned	519,199
50891	Unassigned	-
Total Ending Cash and Investments		8,374,684

Port of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

Beginning Cash and Investments

308	Beginning Cash and Investments	4,350,939
388 / 588	Net Adjustments	-

Revenues

310	Taxes	2,720,931
320	Licenses and Permits	-
330	Intergovernmental Revenues	604,961
340	Charges for Goods and Services	5,603,326
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,564,585
Total Revenues:		10,493,803

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	5,560,454
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		5,560,454
Excess (Deficiency) Revenues over Expenditures:		4,933,349

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	785,091
Total Other Increases in Fund Resources:		785,091

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,847,887
591-593, 599	Debt Service	1,282,350
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	700,238
Total Other Decreases in Fund Resources:		3,830,475

Increase (Decrease) in Cash and Investments: 1,887,965

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	2,184,600
50841	Committed	2,562,964
50851	Assigned	1,491,339
50891	Unassigned	-
Total Ending Cash and Investments		6,238,903

PORT OF PORT TOWNSEND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

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 in Washington state. 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 business locations, 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 expense recognition.

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 of more than one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

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, 2022, was \$243,926. 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 the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$7,855,485 as of December 31, 2022. The details of the total ending restricted and committed balances are as follows:

Leasehold Excise Tax	\$ 157,322
Industrial Development District reserve	4,448,299
Port-Wide Capital reserve	1,126,631
Port Townsend Boat Haven reserve	441,517
Operating reserve	1,181,716
Emergency reserve	<u>500,000</u>
Total	<u>\$ 7,855,485</u>

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.

The Port is a voluntary participant in the Washington State Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are 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.

Investments and deposits by type as of December 31, 2022, are as follows:

Type of Deposit/Investment	Port's own Deposits and investments	Investments held by Port as an agent for other local governments, individuals, or private organizations.	Total
LGIP	\$ 7,724,719	\$ 0	\$ 7,724,719
General Fund (warrants) (held by Jefferson County)	485,299	0	485,299
Kitsap Bank (depository)	72,759	0	72,759
Kitsap Bank (checking)	85,000	0	85,000
U.S. Bank (I.D.C. CD)	3,662	0	3,662
U.S. Bank (Quilcene checking)	1,884	0	1,884
U.S. Bank (I.D.C checking)	1,361	0	1,361
Total	\$ 8,374,684	\$ 0	\$ 8,374,684

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 or its agent 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 2022 was \$0.15 per \$1,000 on an assessed valuation of \$7,066,975,700 for a total regular levy of \$1,071,500 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 2022 was \$0.37 per \$1,000 on an assessed valuation of \$7,066,975,700 for a total of \$2,634,289 as of budget adoption.

Note 4 – Leases

During the year ended 2021, the Port adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.

The Port leases a postage machine from Pitney Bowes for \$168.48 per month under an installment purchase lease. The lease began in September 2019 and will end August 2024 at which time the Port will own the machine.

The total amount paid for this lease in 2022 was \$2,021.76. As of December 31, 2022, the future lease payments are as follows:

Year ended December 31	Total
2023	\$ 2,021.76
2024	1,347.84
total	\$ 3,369.60

Note 5 – Long Term Debt

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, 2022.

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

G.O. Bonds	Principal	Interest
2023	835,000	186,088
2024	865,000	155,788
2025	900,000	124,288
2026	385,000	99,838
2027-2029	1,245,000	154,350
Totals	\$4,230,000	\$720,352

2021 LTGO Line of Credit

On January 13, 2021, the Port Commission passed Res. 741-21 for a 2021 LTGO Bond evidencing a \$7,000,000 line of credit. Interest on the bond is 1.55% per annum through March 1, 2025. Subsequently, the interest increases to 1.65% per annum until the maturity date March 1, 2027. Payments on this line of credit are due semi-annually on March 1, and September 1. This debt instrument was created with the intention of using it as a bridge between payment for capital work, and reimbursement from grantors. In the autumn of 2022, the Port had drawn \$3,823,644 from the line of credit to pay the contractor working on the Point Hudson Jetty replacement. The following is the detail on the outstanding debt:

Issue	Draw date	Maturity date	rate (%)	Beginning balance	Issued	Paid	Interest paid	Ending balance
LTGO 2021	11/10/22	03/01/27	1.55	\$ -	\$2,633,967	\$ -	\$ -	\$2,633,967
LTGO 2021	12/15/22	03/01/27	1.55	-	1,189,677	-	-	1,189,677
Totals				\$ -	\$3,823,644	\$ -	\$ -	\$3,823,644

The Port plans to repay the balance by the next semiannual payment date September 1, 2023. On 12/31/2022, the unused line of credit balance available was \$3,176,356.

Note 6 – Construction in Progress

The Port had active construction projects as of December 31, 2022, which include construction, engineering, and other capital support contracts. At year end, the Port's commitments with contractors are as follows:

Project name	Contract work performed	spent to date	remaining commitment
Boat Haven Marina Pavement Repair	pavement repair	\$ 72,279	\$ 3,472
Boat Haven Stormwater Treatment	design engineering	6,801	203,309
Boat Haven Stormwater Treatment	Permitting	3,249	7,751
Boat Haven West Yard Expansion	design engineering	24,690	43,310
Boat Haven West Yard Expansion	Planning Study	15,200	17,354
Clean Vessel Boat Build	retro fit vessel, install pump-outs	35,000	35,000
FEMA DR4650 Boat Haven Pave/Bulkhead	Permitting/PA Support	25,584	9,576
FEMA DR4682 Point Hudson Emergency Repairs	Permitting /PA Support	1,407	33,900
Gardiner Boat Ramp Renovation	design engineering	67,362	40,138
Gardiner Boat Ramp Renovation	Permitting	26,396	50,156
Herb Beck Marina Dredge	design engineering	39,027	2,893
JCIA 2nd Connector Taxiway	design engineering	21,552	134,448
JCIA Hangar Roof Repair	roof repair	80,856	8,984
Point Hudson Jetty Replacement	construction	3,958,937	6,703,384
Point Hudson Jetty Replacement	engineering support during construction	80,672	166,708
Point Hudson Jetty Replacement	construction management	76,895	168,105
Point Hudson Jetty Replacement	environmental monitoring	177,591	6,876
	Totals	\$ 4,713,497	\$ 7,635,364

Of the remaining committed balance of \$7,635,364, 89% will be paid from grant awards, with the remainder of the costs paid with cash reserves, and net operating income.

Note 7 – 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 15 active plan members and six (6) retired plan members as of measurement date June 30, 2022. As of December 31, 2022, the Port's total OPEB liability was \$1,091,577 as calculated using the alternative measurement method. The Port contributed \$18,440 to the plan for the year ended December 31, 2022.

Note 8 – Pension Plans

All Port full-time and qualifying part-time employees participate in either the PERS Plan II or 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 downloaded from the DRS website at www.drs.wa.gov.

As of June 30, 2022 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, also reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$103,643	0.016911%	\$470,864
PERS 2/3	\$176,807	0.022008%	(\$816,229)

Only the net pension liabilities are reported on Schedule 09.

Note 9 – Risk Management

Port of Port Townsend is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2022, there were 527 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement policy. Pollution and Cyber coverage are provided on a claims made coverage form. Crime coverage is provided on a discovery form. All other coverage is provided on an occurrence coverage form.

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

companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence Pool Aggregate	\$500,000 \$1 million	\$0 Fully funded by Pool	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay ⁽³⁾
Property ⁽²⁾:				
Buildings and Contents	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense (EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
Sublimit ⁽⁵⁾:				
Flood	Per Occurrence	\$250,000	\$50 million	\$1,000 - \$250,000

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
			(shared by Pool members)	
Earthquake	Per Occurrence	5% of indemnity, subject to \$250,000 minimum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million per occurrence \$200 million aggregate	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/ Pool aggregate \$1.1 billion/ per occurrence APIP program \$1.4 billion/ APIP program aggregate	\$0
Automobile Physical Damage ⁽⁶⁾	Per Occurrence	\$25,000 \$100,000 for Emergency Vehicles; \$250,000 for Emergency Vehicles valued >\$750,000	\$1 billion	\$250 - \$1,000
Crime Blanket ⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position ⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Cyber ⁽⁹⁾	Each Claim APIP Aggregate	\$100,000	\$2 million \$40 million	20% Copay

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Identity Fraud Expense Reimbursement ⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Property coverage for each member is based on a detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$1 billion except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
- (3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
- (4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
- (5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
- (6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detailed vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Members may elect to "buy-up" the level of coverage from \$5,000 to \$2 million.
- (8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.
- (9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8-hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.
- (10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.

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

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

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

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

PORT OF PORT TOWNSEND
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

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 business locations, 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 when purchased.

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, 2021, was \$253,262. See Schedule 09, Schedule of Liabilities.

F. Long-Term Debt

See Note 5, *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 the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$4,747,564 as of December 31, 2021. The details of the total ending restricted and committed balances are as follows:

Leasehold Excise Tax	\$ 146,922
Industrial Development District reserve	2,037,678
Port-Wide Capital reserve	751,646
Port Townsend Boat Haven reserve	447,878
Operating reserve	863,440
Emergency reserve	<u>500,000</u>
Total	<u>\$ 4,747,564</u>

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.

The Port is a voluntary participant in the Washington State Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are 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.

Investments and deposits by type as of December 31, 2021 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	\$ <u>5,778,301</u>	\$ <u>0</u>	\$ <u>5,778,301</u>
General Fund (warrants) (held by Jefferson County)	<u>279,374</u>	<u>0</u>	<u>279,374</u>
Kitsap Bank (depository)	<u>122,838</u>	<u>0</u>	<u>122,838</u>
Kitsap Bank (checking)	<u>52,000</u>	<u>0</u>	<u>52,000</u>
U.S. Bank (I.D.C. CD)	<u>3,660</u>	<u>0</u>	<u>3,660</u>
U.S. Bank (Quilcene checking)	<u>1,370</u>	<u>0</u>	<u>1,370</u>
U.S. Bank (I.D.C checking)	<u>1,361</u>	<u>0</u>	<u>1,361</u>
Total	\$ <u>6,238,903</u>	\$ <u>0</u>	\$ <u>6,238,903</u>

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 or its agent 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 2021 was \$0.16 per \$1,000 on an assessed valuation of \$6,445,175,673 for a total regular levy of \$1,048,500 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 2021 was \$0.26 per \$1,000 on an assessed valuation of \$6,445,175,673 for a total of \$1,634,289 as of budget adoption.

Note 4 – Leases

During the year ended 2021, the Port adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.

The Port leases a postage machine from Pitney Bowes for \$168.48 per month under an installment purchase lease. The lease began in September 2019 and will end August 2024 at which time the Port will own the machine.

Details on this transaction are included in the Schedule 09 Long Term Liabilities.

Note 5 - Long Term Debt

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

G.O. Bonds	Principal	Interest
2022	\$ 810,000	\$ 215,338
2023	835,000	186,088
2024	865,000	155,788
2025	900,000	124,288
2026	385,000	99,838
2027-2029	1,245,000	154,350
Totals	\$ 5,040,000	\$ 935,688

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, 2021.

2021 Unused Line of Credit

On January 13, 2021, the Port Commission passed Res. 741-21 for a 2021 LTGO Bond evidencing a \$7,000,000 line of credit. At fiscal year-end, the Port had not used any of these available funds.

Note 6 – 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 five (5) retired plan members as of measurement date June 30, 2021. As of December 31, 2021, the Port's total OPEB liability was \$1,073,137 as calculated using the alternative measurement method. The Port contributed \$31,183 to the plan for the year ended December 31, 2021.

Note 7 – 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, 2021 (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	\$107,604	0.014446%	\$176,419
PERS 2/3	\$175,966	0.018576%	(\$1,850,468)

Note 8 – Risk Management

Port of Port Townsend is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987, pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2021, there were 539 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris' program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement program. Pollution coverage is provided on a "claims made" coverage form. All other coverage is provided on an "occurrence" coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases, the Pool may allow members to elect

to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence Pool Aggregate	\$500,000 \$1 million	\$0 Fully funded by Pool	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay ⁽³⁾

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible
- (2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.
- (3) Members pay a 20% co-pay of costs up to a maximum of \$100,000. By meeting established guidelines, the co-pay may be waived.

Property ⁽²⁾:

Buildings and Contents	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense(EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000

Sublimit ⁽⁵⁾:

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5%; \$500,000 maximum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million/ Pool member \$200 million	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/Pool member \$1.2 billion/APIP \$1.4 billion/APIP	\$0
Automobile Physical Damage⁽⁶⁾	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles	\$800 million	\$250 - \$1,000
Crime Blanket ⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position ⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Cyber ⁽⁹⁾	Each Claim APIP Aggregate	\$100,000	\$2 million \$25 million	20% Copay
Identity Fraud Expense Reimbursement ⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$800 million except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
- (3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
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- (4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
- (5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
- (6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from \$5,000 to \$1 million.
- (8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.
- (9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.
- (10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.

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

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

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

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

Note 9 – Covid-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout

2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The Port 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 in 2020 to address the potential financial impact on Port operations. Ultimately, operations were not impacted as significantly as initially estimated and the Port's operating activity continued to be strong in 2021. In 2022, the Port continues to be vigilant to the impact on operations from the pandemic as it is still evolving. The Port continues to be conservative in its revenue projections, while closely monitoring expenses.

**Port of Port Townsend
Schedule of Liabilities
For the Year Ended December 31, 2022**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2010 LTGO Bond	12/1/2029	3,000,000	-	320,000	2,680,000
251.11	2015 LTGO Refunding Bond	7/1/2025	2,040,000	-	490,000	1,550,000
251.11	2021 LTGO Bond (Line of Credit)	3/1/2027	-	3,823,644	-	3,823,644
Total General Obligation Debt/Liabilities:			5,040,000	3,823,644	810,000	8,053,644
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		253,262	18,724	28,060	243,926
264.40	Other Post Employment Benefits		1,073,137	18,440	-	1,091,577
264.30	Pension Liability		176,419	294,445	-	470,864
263.52	Installment Purchase - Mail machine	8/31/2024	5,391	-	2,022	3,369
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,508,209	331,609	30,082	1,809,736
Total Liabilities:			6,548,209	4,155,253	840,082	9,863,380

**Port of Port Townsend
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2010 LTGO Bond	12/1/2029	3,310,000	-	310,000	3,000,000
251.11	2015 LTGO Refunding Bond	7/1/2025	2,515,000	-	475,000	2,040,000
251.11	2020 LTGO Bond (Line of Credit)	3/1/2022	250,000	-	250,000	-
Total General Obligation Debt/Liabilities:			6,075,000	-	1,035,000	5,040,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		240,478	39,640	26,856	253,262
264.40	Other Post Employment Benefits		1,568,111	-	494,974	1,073,137
264.30	Pension Liability		730,661	-	554,242	176,419
263.52	Pitney Bowes Lease	8/31/2024	7,413	-	2,022	5,391
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,546,663	39,640	1,078,094	1,508,209
Total Liabilities:			8,621,663	39,640	2,113,094	6,548,209

**Port of Port Townsend
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Economic Development Cluster								
ECONOMIC DEVELOPMENT ADMINISTRATION, COMMERCE, DEPARTMENT OF	Economic Adjustment Assistance	11.307	-	-	841,708	841,708	-	
	Total Economic Development Cluster:			-	841,708	841,708	-	
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Parks & Recreation Commission)	Clean Vessel Act	15.616	123-244	26,250	-	26,250	-	
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WA Recreation & Conservation Office)	Sportfishing and Boating Safety Act	15.622	14-588	96,318	-	96,318	-	1
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	-	-	19,397	19,397	-	
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via WA Dept. of Commerce)	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	22-96515-004	10,609	-	10,609	-	
U.S. COAST GUARD, HOMELAND SECURITY, DEPARTMENT OF (via Sea Tow Foundation)	Boating Safety Financial Assistance	97.012	3319FAIN11922 1	1,725	-	1,725	-	4

The accompanying notes are an integral part of this schedule.

**Port of Port Townsend
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

		Expenditures					Passed through to Subrecipients	Note
		Federal Program	ALN Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	COVID 19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	-	5,448	5,448	-	1
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	-	29,489	29,489	-	1
Total ALN 97.036:					34,937	34,937	-	
Total Federal Awards Expended:					134,902	896,042	1,030,944	-

Port of Port Townsend
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the Port's financial statements. The Port uses the cash basis of accounting and measurement focus where revenues are recognized when cash is received, and expenditures are recognized when paid. Two (2) projects were approved by FEMA's Disaster Grants – Public Assistance program in 2022, though costs were incurred in prior years. This was for award D20-401 for covid-19 prevention/sanitation supplies in the amount of \$5,448, and project #661636 for stormwater materials replacement in the amount of \$29,489. In addition, a grant was amended in 2022 that allowed the Port to reach back to prior years' expenditures for reimbursement. This was the WA Recreation & Conservation Office grant #14-588; of the total listed on the SEFA, \$29,512 was from prior years.

Note 2 – Federal De Minimis Indirect Cost Rate

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

Note 3 – Program Costs

The amounts shown as federal 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.

ABOUT THE STATE AUDITOR'S OFFICE

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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.

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