PORT OF EDMONDS

2023 Annual Report

For the Fiscal Year Ended December 31, 2023

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PORT OF EDMONDS

2023 Commissioners

Steve Johnston	President
Jim Orvis	Vice-President
Jay Grant	Secretary
David Preston	Commissioner
Janelle Cass	Commissioner

2023 Port Officers

Angela Harris	Executive Director
Brandon Baker	Deputy Executive Director
Brian Menard	Director of Facilities and Maintenance
Tsz Yan Brady	Director of Finance and Administration
Brittany Williams	Manager of Properties and Economic Development

See accompanying notes to the financial statements.

Port of Edmonds
2023 Annual Report

Contents

See accompanying notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Port of Edmonds is a Special Purpose Municipal Government. The Port was created in 1948 by a vote of the citizens of the Port district. The district encompasses portions of the City of Edmonds and all of the Town of Woodway.

The Port of Edmonds operates a marina on Puget Sound for recreational boating. The marina consists of an in-water facility with 667 slips, a dry stack storage facility for 224 vessels, two public boat launches, a boatyard, a fuel dock, guest moorage, and parking facilities. In addition to the Port's marina operations, the Port rents its land to commercial users who then build suitable facilities on the land. The Port also owns and manages eight buildings, renting portions of those buildings to approximately 60 tenants. Major tenants include a hotel, an athletic club, three restaurants, a yacht broker/repair facility, and a yacht club. In addition to its lines of business the Port provides the Portwalk, a popular community amenity as well as hosts a series of environmental educational programs and community events.

Five elected Port Commissioners, elected to four-year terms, serve as the governing body of the Port. In accordance with the laws of the State of Washington, the Commissioners have appointed an Executive Director to manage Port operations, and a Port Auditor to manage the Port's finances. Currently, the Director of Finance and Administration serves as the appointed Port Auditor.

USING THE ANNUAL REPORT

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

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

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

The Statement of Net Position (also known as the Balance Sheet) presents all of the Port's assets plus deferred outflow of resources, and liabilities plus deferred inflow of resources, with the difference between the two reported as net position. Over time, increases and decreases in the Port's net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

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

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

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

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2023 in comparison to 2022, as well as reviewing changes in revenues and expenses reflected in the financial statements.

FINANCIAL ANALYSIS – STATEMENT OF NET POSITION

Summary of Statement of Net Position				
	2023	2022	Increase (Decrease)	% Change
Current Assets	$ 11,550,429	$ 14,813,312	$ (3,262,883)	-22%
Noncurrent Assets	26,375,619	25,385,918	989,701	4%
Capital Assets, Net	33,392,595	27,543,831	5,848,764	21%
Total Assets	71,318,643	67,743,061	3,575,582	5%
Deferred Outflows of Resources	707,962	764,605	(56,643)	-7%
Total Assets and Deferred Outflows of Resources	72,026,605	68,507,666	3,518,939	5%
Current Liabilities	1,682,913	1,931,294	(248,381)	-13%
Noncurrent Liabilities	1,837,064	2,105,921	(268,857)	-13%
Total Liabilities	3,519,977	4,037,215	(517,238)	-13%
Deferred Inflows of Resources	12,431,086	13,663,922	(1,232,836)	-9%
Net investment in capital assets	33,392,595	27,543,831	5,848,764	21%
Restricted	721,860	626,265	95,595	15%
Unrestricted	21,961,087	22,636,433	(675,346)	-3%
Total Net Position	56,075,542	50,806,529	5,269,013	10%
Total Liabilities, Deferred Inflows of Revenues, and Net Position	$ 72,026,605	$ 68,507,666	$ 3,518,939	5%

The Port's current assets decreased by $3.3 million in 2023 mainly due to the cash expanded on construction of new Administration and Maintenance building and decrease in lease receivable. Noncurrent assets increased by $990,000. The increase is the difference between the called and matured investments retained as cash and an increase in net pension asset. Net capital assets increased by $5.9 million because of construction of the Port's new Administration and Maintenance building, which is scheduled for completion in the first quarter of 2024.

Deferred outflows of resources decreased by $57,000, primarily due to a decrease in deferred pension outflow. See Note 7, *Pension Plans* for more information.

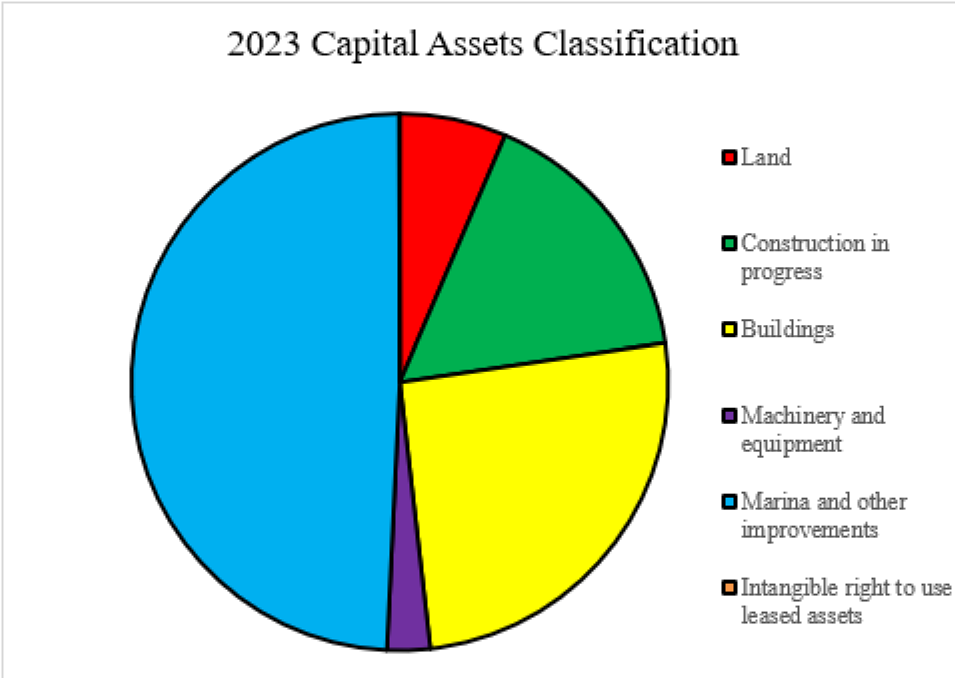
The Port's current liabilities decreased by $248,000 due to decreases in accounts payable and employee leave benefits. Noncurrent liabilities decreased by $269,000 due to decreases in other postemployment benefits and net pension liability.

Deferred inflows of resources decreased by $1.2 million, due to a decrease in deferred pension inflow and deferred lease inflow.

Net investment in capital assets increased by $5.9 million because of the construction of the new Administration and Maintenance building. The Port restricted $722,000 of net position as a result of the net pension asset, adjusted by the associated deferred outflows and inflows. As of

December 31, 2023, the Port's assets exceeded its liabilities by $56.1 million (net position), which is an increase of $5.3 million or 10%.

CAPITAL ASSETS



Capital Assets	2023	2022
Land	$ 4,323,675	$ 4,323,675
Construction in progress	10,929,797	3,897,343
Buildings	17,166,874	17,166,874
Machinery and equipment	1,740,402	1,633,249
Marina and other improvements	33,102,721	33,102,721
Intangible right to use leased assets	25,129	25,129
	$ 67,288,598	$ 60,148,991

The Port records the acquisition of all assets at historical costs on its Statement of Net Position. In 2023, the Port purchased furniture for the new Administrative and Maintenance building and put a deposit for a forklift, which were recorded as Construction in progress as these items are expected to place in service in 2024. The Port has also disposed of the Ruby and Petrovend Fuel Sales Systems and replaced them with a C18 Fuel Sales system in the fuel dock due to obsolescence. The Port began construction of a new Administration and Maintenance Building in 2022 with total costs of $10.3 million incurred as of December 31, 2023, and expecting to incur additional $200,000 in costs in 2024. As of December 31, 2023, the Port is in the design and engineering stages of the North Seawall and Portwalk Rebuild with a total cost of $667,000, with expected construction to begin in 2026. The Port has submitted permits and is waiting for approval to proceed with the final design.

The Port’s capital assets are classified into the following categories: land, construction in progress, buildings, marina and other improvements, machinery and equipment, and intangible right to use leased assets. Marina and other improvements include assets such as docks, breakwaters, the dry stack facility, roads, and landscaping. See Note 4, *Capital Assets and Depreciation,* in the Notes to the Financial Statements for more information.

The Port maintained capital assets of $67.3 million as of December 31, 2023, which is an increase of $7.1 million compared to December 31, 2022 as a result of investments in capital assets, offset by depreciation. When the Port invests more than depreciation in new capital assets in a year, the book value of its asset base increases.

LIABILITIES

The Port’s current liabilities as of December 31, 2023, decreased by $248,000 compared to December 31, 2022. Current liabilities include payments for expenses already incurred, unearned revenue, customer deposits, employee leave benefits, and the current portions of leased assets liability and other post-employment benefits liability.

The Port’s long-term liabilities are the long-term portion of the leased assets liability, other postemployment benefits liability, net pension liability, environmental remediation liability, and underground storage tank retirement obligation. See Notes 7, *Pension Plans*; 8, *Other Postemployment Benefit (OPEB) Plans*; 13, *Pollution Remediation Obligations*; and 14, *Underground Storage Tank Remediation Obligation* in the Notes to the Financial Statements for more information on long term obligations of the Port.

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

Summary of Statement of Revenues, Expenses, and Changes in Net Position				
	2023	2022	Increase (Decrease)	% Change
Marina Operations Revenues	$ 9,021,613	$ 8,491,750	$ 529,862	6%
Property/Lease Rental Operations Revenues	2,526,637	2,253,855	272,783	12%
Total Revenues	11,548,250	10,745,605	802,645	7%
Operating Expenses	8,739,197	8,227,512	511,685	6%
Operating Income	2,809,053	2,518,093	290,960	12%
Net Nonoperating Revenues/(Expenses)	2,459,960	788,528	1,671,432	212%
Capital Contributions	-	30,000	(30,000)	-100%
Increase in Net Position	5,269,013	3,336,621	1,932,392	58%
Net Position - Beginning	50,806,529	47,469,908	3,336,621	7%
Net Position - Ending	$ 56,075,542	$ 50,806,529	$ 5,269,013	10%

The Statement of Revenues, Expenses, and Changes in Net Position presents the changes in net position.

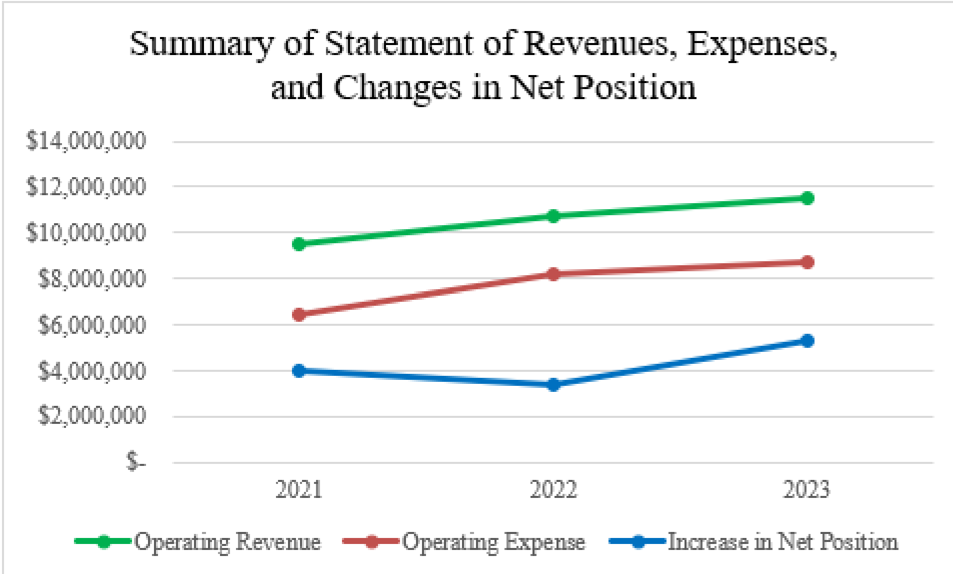
The Port's 2023 marina operations revenues were $9.0 million, an increase of $530,000 or 6% greater than 2022. The reasons for this increase were quantity of fuel sold, an increase in moorage and dry storage occupancy, and an increase in the prices of services charged by the Port. 2023 property/lease rental operations revenues were $2.5 million, an increase of $273,000 or 12% greater than the previous year. This increase is due to an increase in occupancy, and an increase in rental rates.

The Port's 2023 operating expenses were $8.7 million, an increase of $512,000 or 6% greater than 2022 operating expense levels. The increase is a result of an increase in salaries and wages of CPI 10.1% and engagement in professional services to support the lobbying effort to obtain grant funding for the North Seawall and Portwalk Rebuild.

The Port's operating income was $2.9 million in 2023, which is $291,000 or 12% greater than 2022.

The Port's 2023 net non-operating revenues and expenses were $2.5 million, an increase of $1.7 million or 212% from the previous year. This difference includes an increase in interest income, an increase in property taxes, receiving a COVID grant, and a positive change in fair value of investments.

In 2023, the Port's net position increased by $5.3 million, as compared to $3.3 million in 2022.



	2021	2022	2023
Operating Revenue	$ 9,531,018	$ 10,745,605	$ 11,548,250
Operating Expense	6,470,216	8,227,512	8,739,197
Increase in Net Position	$ 3,960,104	$ 3,366,621	$ 5,269,013

RECREATION AND CONSERVATION OFFICE GRANT

The Port has been applying for grants at both the Federal and State level to assist in paying for infrastructure improvements. In particular, the Port is in the design and engineering stages of the North Seawall and Portwalk Rebuild, with expected construction to begin in 2026. The Port has submitted permits and is waiting for approval to proceed with the final design.

In 2023, the Port was awarded the Recreation and Conservation Office grant up to $500,000. The period of performance began on August 1, 2023 (project start date) and will end on December 31, 2026 (project end date). No allowable cost incurred before or after this period is eligible for reimbursement unless specifically provided for by written amendment or addendum to the Agreement.

The Port of Edmonds will use this grant to reconstruct and renovate a 900-foot-long section of deteriorated waterfront public boardwalk (i.e., North Portwalk) that extends between the Port of Edmonds Administration Building and Olympic Beach. The existing treated-wood boardwalk will be replaced within the same footprint but elevated six inches to create better pedestrian separation from the adjacent drive/fire lane and to improve pedestrian accessibility. The new walkway will have steel framing, steel railings and a deck of concrete panels inset with clear glass blocks. This non-slip walking surface is an environmentally conscious design that allows sunlight to penetrate to the water inhabitants below. Development will also include restroom facilities, expanded parking, landscaping, integrated lighting and way-finding signage. Additional development will also include two plazas adjacent to the boardwalk which will showcase public art and will provide public gathering spaces. The primary recreation opportunity provided by this project will be upgraded public access to the shoreline and enhanced public amenities along the waterfront.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions or need additional information, please visit our web-site at www.portofedmonds.gov or contact: Director of Finance and Administration, 471 Admiral Way, Edmonds, WA 98020. Telephone (425) 774-0549.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS	
Current Assets	
Cash and cash equivalents (Notes 1 and 2)	$ 9,485,414
Accounts receivable (net of allowance for uncollectibles) (Note 1)	173,881
Lease receivable - current (Notes 1 and 11)	1,478,327
Taxes receivable (Notes 1 and 3)	7,633
Interest receivable (Notes 1 and 2)	48,582
Inventory (Note 1)	65,025
Prepaid expenses (Note 1)	291,566
Total Current Assets	11,550,429
Noncurrent Assets	
Investments (Note 2)	15,109,730
Lease receivable - non-current (Notes 1 and 11)	10,544,029
Net pension asset (Notes 1 and 7)	721,860
Capital Assets	
Capital Assets Not Being Depreciated (Notes 1 and 4)	
Land	4,323,675
Construction in progress (Note 4)	10,929,797
Capital Assets Being Depreciated (Notes 1 and 4)	
Buildings	17,166,874
Marina and other improvements	33,102,721
Machinery and equipment	1,740,402
Intangible right to use leased assets	25,129
Less: Accumulated depreciation and amortization	(33,896,003)
Total Net Capital Assets	33,392,595
Total Noncurrent Assets	59,768,214
TOTAL ASSETS	$ 71,318,643
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflow (Notes 1 and 7)	588,982
Deferred other post employment benefits outflow (Notes 1 and 8)	5,419
Deferred underground storage tank retirement outflow (Notes 1 and 14)	113,561
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 707,962

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET POSITION
DECEMBER 31, 2023

LIABILITIES	
Current Liabilities	
Accounts payable	$ 234,238
Accrued expenses (Note 1)	391,944
Unearned revenue (Note 1)	140,329
Employee leave benefits (Note 1)	138,817
Customer deposits	761,685
Current portion of leased assets liability	5,062
Current portion of other post-employment benefits (Note 8)	10,838
Total Current Liabilities	1,682,913
Noncurrent Liabilities	
Leased assets liability	8,537
Other postemployment benefits (Note 8)	598,578
Net pension liability (Notes 1 and 7)	311,661
Environmental remediation liability (Note 13)	612,500
Underground storage tank retirement obligation (Note 14)	305,788
Total Noncurrent Liabilities	1,837,064
TOTAL LIABILITIES	3,519,977
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows (Notes 1 and 7)	408,729
Deferred lease inflow (Notes 1 and 11)	12,022,357
Total Deferred Inflows of Resources	12,431,086
NET POSITION	
Net investment in capital assets	33,392,595
Restricted for net pension asset	721,860
Unrestricted	21,961,087
TOTAL NET POSITION	$ 56,075,542

See accompanying notes to the financial statements.

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

OPERATING REVENUES (Note 1)	
Marina operations	$ 9,021,613
Property lease/rental operations	2,526,637
Total Operating Revenues	11,548,250
OPERATING EXPENSES (Note 1)	
General operations	5,511,143
Maintenance	624,330
General and administrative	1,232,065
Depreciation and amortization	1,371,659
Total Operating Expenses	8,739,197
Operating Income	2,809,053
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Interest expense on leased assets liability	(422)
Investment income (Notes 1 and 2)	962,626
Interest income from lease activity (Notes 1 and 11)	552,840
Taxes levied for general purposes (Notes 1 and 3)	626,023
Grant proceeds (Note 12)	250,000
Change in fair value of investments (Note 2)	81,795
Loss on disposition of fixed assets (Note 4)	(2,573)
Election expense	(10,329)
Total Nonoperating Revenues (Expenses)	2,459,960
Increase in net position	5,269,013
Net position as of January 1	50,806,529
Net position as of December 31	$ 56,075,542

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 11,569,138
Payments to suppliers	(4,193,042)
Payments to employees	(4,087,750)
Net cash provided by operating activities	3,288,346
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 3)	625,340
Nonoperating receipts	250,000
Nonoperating expenses	(10,329)
Net cash provided by noncapital financing activities	865,011
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets (Note 4)	(7,214,961)
Receipt of capital grant	-
Interest paid on leased assets	(422)
Net cash used by capital and related financing activities	(7,215,383)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments (Note 2)	2,500,000
Purchases of investments (Note 2)	(3,698,414)
Interest and dividends	1,192,054
Net cash used by investing activities	(6,360)
Net decrease in cash and cash equivalents	(3,068,386)
Balances - beginning of the year	12,553,800
Balances - end of the year (Note 1)	$ 9,485,414

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	$ 2,809,053
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense (Note 4)	1,371,659
Other post-employment benefits negative expense	(233,422)
Pension negative expense	(313,338)
Changes in assets and liabilities	
(Increase)/decrease in accounts receivable	79,439
(Increase)/decrease in inventory	39,918
(Increase)/decrease in prepaid expenses	(41,072)
Increase/(decrease) in accounts payable	(269,605)
Increase/(decrease) in accrued expenses	24,916
Increase/(decrease) in customer deposits	507
Increase/(decrease) in unearned revenue	117,385
Increase/(decrease) in lease inflow	(176,442)
Increase/(decrease) in employee leave benefits	(120,652)
Net cash provided by operating activities	$ 3,288,346

See accompanying notes to the financial statements.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Port was incorporated in December 1948 and operates under the laws of the State of Washington applicable to public port districts. The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through user charges. The Port is governed by an elected five-member board.

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

B. Basis of Accounting and Reporting

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

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

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

The Port distinguishes between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for boating services and land and building lease revenue. Operating expenses for the Port include general operations, maintenance, general and administrative, and depreciation. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

C. Use of Estimates

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

D. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. On December 31, 2023, the treasurer was holding $9,485,414 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents.

The Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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

3. Receivables

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. Accounts receivable has been recorded net of estimated uncollectible amounts. The allowance for doubtful account is $46,569 as of December 31, 2023.

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

Taxes receivable consists of property taxes and related interest and penalties (See Note 3, *Property Taxes*). Because property taxes are considered liens on property, no estimated uncollectible amounts are established.

Interest receivable consists of amounts earned on investments at the end of the year.

4. Inventory

Inventory consists of fuel held for sale to customers. Inventory is valued by the weighted average cost method, which approximates market value. The cost is recorded as general operations at the time the inventory items are consumed.

5. Prepaid Expenses

Prepaid expenses include items that were paid for but have not yet incurred. Examples are insurance, dues, advertising, marketing programs, and software maintenance agreements.

6. Capital Assets and Depreciation - See Note 4, *Capital Assets and Depreciation*.

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

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

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

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

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

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 20 years
Other Improvements	10 to 50 years
Intangible Right to Use Leased Asset	Term of lease

7. Deferred Outflows/Inflows of Resources

The Port reports deferred outflows and deferred inflows of resources separately on the Statement of Net Position. Deferred outflows of resources represent a consumption of net assets that apply to a future period(s). Conversely, deferred inflows of resources represent an acquisition of net assets that apply to a future period(s).

8. Employee Leave Benefits

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

Each employee may carry forward 120 hours of vacation pay to the following year. Unused vacation pay is payable upon separation, retirement, or death. Sick leave may accumulate up to 1,000 hours. No accrual is made for sick pay for employees as it expires if unused.

9. Pensions

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

For purposes of calculating restricted net position related to the net pension asset, the Port includes the net pension asset only.

10. Accrued Expenses

Accrued expenses consist of accrued leasehold, payroll, sales and business taxes, employee withholdings, accrued wages payable, and abandoned property.

11. Unearned Revenue

On December 31, 2023, the Port held $140,329 in Unearned Revenue. These amounts are prepayments of rent and will be recognized as revenue in 2024.

12. Net Position Classification

The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted. The Port's Statement of Net Position reports $721,860 of restricted net position for pension asset as per Note 7, *Pension Plans*. None of the restricted net position is restricted by enabling legislation.

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

The Port is a lessor for noncancelable leases. Leases are contracts that convey control of a right to use the Port's land, buildings, or portions of buildings over a period of time that exceeds one year. For leases with a maximum possible term of 12 months or less at commencement, revenue is recognized based on the provisions of the lease contract. For all other leases, the Port recognizes a lease receivable and a deferred inflow when the lease commences.

At lease commencement, the lease receivable is initially measured at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as lease revenue using the interest rate method over the lease term.

Key estimates and judgments include how the Port determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

1. The discount rate for leases is based on the rate of interest the lessee would be charged to borrow an amount equal to the lease payments, respectively, under similar terms at the commencement or remeasurement date. The Port determines the discount as follows:

a. If the lease term is 20 years or more, the implicit rate in the lease agreement is used.
b. If the lease term is less than 20 years, the lessee's borrowing rate is estimated as follows:

Total Lease Payments Over the Lease Term Plus Options to Extend	Discount Rate Used
$500,000 or more	Prime
$50,001 to $499,999	Prime + 2.75%
$25,001 to $50,000	Prime + 3.25%
$25,000 or less	Prime + 4.25%

2. The lease term includes the noncancellable period of the lease plus any additional periods covered by either a lessee or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the lessee and the lessor/vendor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term. Current Port leases have been extended from 2 to 25 years. The Port has two longer term building leases of 35 and 40 years with multiple lease extensions of 5 to 10 years each. Land leases are typically 30 to 50 years with two or more extensions of 5 to 15 years, as the tenant has invested in constructing and maintaining a building on the leased land.

3. Port procedure is to negotiate all leases at fair market value, considering market conditions, economic factors, property condition, and location, as well as other factors that may impact negotiating lease prices. Land lease rent ranges from $5,000 to $14,000 per month. Building leases and major portions of building leases rent range from $19,000 to $27,000 per month. Partial building lease rent ranges from $700 to $17,000 per month.

The Port monitors changes in circumstances that may require remeasurement of a lease receivable. When certain changes occur that are expected to significantly affect the amount of the lease, the receivable is remeasured and a corresponding adjustment is made to the deferred inflow of resources.

14. <u>Leases (Port as Lessee)</u> – See Note 11, *Leases*

The Port is a lessee for noncancelable leases. Leases are contracts that convey control of a right to use an asset over a period of time that exceeds one year. For leases with a maximum possible term of 12 months or less at commencement, expenses are recognized based on the provisions of the lease contract. For all other leases, the Port recognizes an intangible right-to-use leased asset and a lease liability when the lease commences. The Port recognizes lease liabilities with an initial, individual value of $5,000 or more.

At lease commencement, the intangible asset and the lease liability is measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. The intangible asset is amortized monthly using the straight-line method over the lease term.

Key estimates and judgments include (1) the discount rate used to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

1. The discount rate for leases is based on the rate of interest the Port would be charged to borrow an amount equal to the lease payments, respectively, under similar terms at the commencement or remeasurement date. The Port estimates that its borrowing rate would be similar to the rate its bank offers to government borrowers.

2. The lease term includes the noncancellable period of the lease plus any additional periods covered by either a lessee or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the lessee and the lessor/vendor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term. The lease term for the Port’s copier contract is 60 months.

3. The total monthly payment for leasing three copiers is $450.

The Port monitors changes in circumstances that may require remeasurement of a lease liability. When certain changes occur that are expected to significantly affect the amount of the lease, the leased asset and liability are remeasured.

15. Subscription-based Information Technology Arrangements (SBITA) - A SBITA is a contract that conveys control of the right to use a third-party’s information technology software. SBITAs that have maximum possible term under the SBITA contract of 12 months or less are considered a short-term SBITA and expensed as incurred. The Port recognized a subscription liability and an intangible right-to-use (RTU) subscription asset at the beginning of a SBITA, unless the SBITA is considered a short-term SBITA. A subscription liability is measured at the present value of subscription payments expected to be made during the subscription term using the Port’s incremental borrowing rate. A subscription asset is initially recorded at the initial measurement of the subscription liability, plus subscription payments made at the commencement of

the subscription term, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The commencement of the subscription term occurs when the Port has obtained control of the right to use the underlying subscription assets, and the subscription asset is placed into service. A subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying subscription asset. Remeasurement of subscription liability occurs when there is a change in the subscription term and/or other changes that are likely to have a significant impact on the subscription liability. The Port calculates the amortization of the discount on the subscription liability and reports that amount as outflows of resources. SBITAs that do not have implicit interest rates, the incremental borrowing rates (IBR) are used. IBR's are estimated rates the Port would be charged for borrowing the payment amounts during the subscription term. Payments are allocated first to accrued interest liability and then to the lease liability. Variable payments based on the usage of the underlying assets are not included in the subscription liability calculations but are recognized as outflows of resources in the period in which the obligation was incurred. The Port did not have any agreements that met definition of SBITA as of December 31, 2023.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand on December 31, 2023 was $1,000 in petty cash and change funds. The carrying amount of the Port's deposits, including the Local Government Investment Pool (LGIP), was $9,484,414.

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 will not be able to recover collateral securities that are in possession of an outside party. The Port's policy is that bank deposits and certificates of deposit must be entirely 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).

B. Investments Authorized

The Port may invest in all types of securities approved by State law. Those securities include:

1. Savings or time accounts, including certificates of deposit, in designated qualified public depositories in accordance with RCW 39.58.

2. Certificates of deposit in commercial banks, savings and loan associations, and mutual savings banks doing business in this state, but not holding collateral pursuant to RCW 39.58, in an amount not in excess of FDIC or FSLIC insurance coverage.

3. Certificates, notes, or bonds of the United States, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the government of the United States.

4. Federal home loan bank notes and bonds, Federal land bank bonds, Federal national mortgage association notes, debentures, and guaranteed certificates of participation.

5. Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve systems.

6. Bonds of the state of Washington and any local government in the State of Washington carry one of the three highest ratings of a nationally recognized rating agency.

7. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington carry one of the three highest ratings of a nationally recognized rating agency.

8. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

C. Investments

It is the Port's policy to invest all temporary cash surpluses. Port staff invests surplus cash according to Port Resolution Number 13-12. Investment objectives, in priority order, are safety, liquidity, and return on investment.

Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port's Investment Portfolio. Securities within the portfolio are laddered and limited to maximum terms of five years.

As of December 31, 2023, the Port held the following investments:

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less Than 1	1-3	More Than 3
U.S. Treasuries	$ 1,866,015	$ -	$ 1,866,015	$ -
U.S Agencies	13,243,715	3,417,127	7,055,705	2,770,883
Total Investments	$ 15,109,730	$ 3,417,127	$ 8,921,720	$ 2,770,883

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Port manages this risk through its investment policy, which requires that only highly secure investments may be purchased.

On December 31, 2023, the Port's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BBBa and Below	Unrated
U.S. Treasuries	$ 1,866,015	$ 1,866,015	$ -	$ -	$ -	$ -	$ -
U.S Agencies	13,243,715	13,243,715	-	-	-	-	-
Totals	$ 15,109,730	$ 15,109,730	$ -	$ -	$ -	$ -	$ -

Custodial Credit Risk: Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the Port would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. All security transactions entered into by the Port of Edmonds are conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the Port are delivered against payment and held in a custodial safekeeping account. The Port has designated U.S. Bank as the third-party custodian. Safekeeping receipts evidence all transactions. None of the Port's investments are held by counterparties.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Port's U.S. Treasury and U.S. Agency investments are secured by the full faith and credit of the United States government. As all U.S. Treasury and U.S. Agency bonds are backed by the full faith and credit of the United States government, the Port's investment policy does not require diversification of U.S. bonds.

D. Deposits in Local Government Investment Pool (LGIP)

The Port is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and is not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Deposits in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

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

E. Investments Measured at Fair Value

The Port's investments, stated at fair value, are based on quoted market prices for similar assets in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in the fair value of an investment is recognized as an increase or decrease in the investment asset and investment income.

The Port measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2023, the Port held the following investments measured at fair value:

		Fair Value Measurements Using		
Investments by Fair Value Level	12/31/2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	$ 1,866,015	$ -	$ 1,866,015	$ -
U.S Agencies	13,243,715	-	13,243,715	-
Total Investments Measured at Fair Value	$ 15,109,730	$ -	$ 15,109,730	$ -
Total Investments in Statement of Net Position	$ 15,109,730			
Investments Shown without Restriction	$ 15,109,730			

F. Change in Fair Value of Investments

Change in fair value of investments of $81,795 is the difference between the price on December 31, 2022 or the date when the Port of Edmonds purchased the securities, whichever is later, and the fair value at December 31, 2023. GASB Statement Number 31, paragraph 7, requires the Port to "…report investments at fair value in the balance sheets. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties…" The market value or fair value is reported to the Port by U.S. Bank, the Port's third-party safekeeping bank. If the Port holds the investments to maturity or call date, there will be no realized loss or gain.

G. Summary of Deposit and Investment Balances

The table below reconciles the Port's deposits and investment balances as of December 31, 2023:

	Total
Cash and Cash Equivalents	
Cash on Hand	$ 1,000
Deposits with Private Financial Institutions	2,157,604
Snohomish County Treasurer	3,009
LGIP	7,323,801
Total Cash and Cash Equivalents	$ 9,485,414
Investments	
U.S. Treasuries	$ 1,866,015
U.S Agencies	13,243,715
Total Investments	$ 15,109,730

NOTE 3 – PROPERTY TAXES

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

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

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

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

The Port's regular levy for 2023 was approximately $0.067 per $1,000 on an assessed valuation of $9,140,606,255 for a total regular tax levy of $618,765.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

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

	Beginning Balance 1/1/2023	Increases	Decreases	Ending Balance 12/31/2023
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	4,323,675
Construction in progress	3,897,343	7,032,454	-	10,929,797
Total capital assets, not being depreciated	8,221,018	7,032,454	-	15,253,472
Capital assets, being depreciated				
Buildings	17,166,874	-	-	17,166,874
Marina and other improvements	33,102,721	-	-	33,102,721
Machinery and equipment	1,633,249	107,153	-	1,740,402
Intangible right to use leased assets	25,129	-	-	25,129
Total capital assets being depreciated	51,927,973	107,153	-	52,035,126
Less accumulated depreciation for				
Buildings	9,632,682	654,444	-	10,287,127
Marina and other improvements	22,058,757	592,033	-	22,650,791
Machinery and equipment	906,822	39,339	-	946,160
Intangible right to use leased assets	6,899	5,026	-	11,925
Total accumulated depreciation	32,605,160	1,290,842	-	33,896,003
Total capital assets, being depreciated, net	$ 19,322,813			$ 18,139,123

NOTE 5 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, 2023, the Port had one active construction project: the construction of a new administration and maintenance building. The Port was also in the permitting phase of the North Seawall and Portwalk Rebuild project. At year end, the Port's commitments with contractors and consultants were as follows:

Project	Spent to Date	Remaining Commitment
New Administration and Maintenance Building	$ 10,129,974	$ 198,762
North Seawall and Portwalk Rebuild	579,278	30,353,704
	$ 10,709,252	$30,552,466

NOTE 6 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 7 – PENSION – STATE SPONSORED (DRS) PLANS

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

Aggregate Pension Amounts – All Plans		
Pension liabilities	$	(311,661)
Pension assets	$	721,860
Deferred outflows of resources	$	588,982
Deferred inflows of resources	$	(408,729)
Pension expense/(credit)	$	(62,223)

State Sponsored Pension Plans

Substantially all of the Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

<u>Contributions</u>

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.20 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

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

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

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

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

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

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.20 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

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

The Port's actual PERS plan contributions were $87,742 to PERS Plan 1 and $163,373 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions

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

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

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increases.
- **Investment rate of return:** 7.0%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR), however OSA made the following assumption changes:

- OSA made adjustments to TRS Plan1 assets, LEOFF Plan 1/2 assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022, measurement date.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability/(asset) calculated using the discount rate of 7%, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	$ 435,415	$ 311,661	$ 203,654
PERS 2/3	$ 785,109	$ (721,860)	$ (1,959,931)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the Port reported its proportionate share of the net pension liabilities/(assets) as follows:

	Liability (or Asset)
PERS 1	$ 311,661
PERS 2/3	$ (721,860)

On June 30, 2023 the Port's proportionate share of the collective net pension liabilities/(assets) was as follows:

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.012940%	0.013653%	0.000713%
PERS 2/3	0.016886%	0.017612%	0.000726%

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

Pension Expense

For the year ended December 31, 2023, the Port recognized pension expense/(credit) as follows:

	Pension Expense
PERS 1	$ 19,844
PERS 2/3	$ (82,067)
TOTAL	$ (62,223)

Deferred Outflows of Resources and Deferred Inflows of Resources

On December 31, 2023, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$0	$(35,156)
Changes of assumptions	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$39,316	$0
TOTAL	$39,316	$(35,156)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$147,042	$(8,065)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(272,040)
Changes of assumptions	$303,062	$(66,056)
Changes in proportion and differences between contributions and proportionate share of contributions	$16,187	$(27,412)
Contributions subsequent to the measurement date	$83,375	$0
TOTAL	$549,666	$(373,573)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense/(credit) as follows:

Year ended December 31	PERS 1
2024	$ (23,919)
2025	$ (30,082)
2026	$ 18,548
2027	$ 297
2028	$ 0
Thereafter	$ 0
Total	$ (35,156)

Year ended December 31	PERS 2/3
2024	$ (124,892)
2025	$ (157,841)
2026	$ 220,374
2027	$ 77,950
2028	$ 77,045
Thereafter	$ 82
Total	$ 92,718

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Port adopted this standard in 2018.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year ended December 31, 2023:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$ 609,416
OPEB assets	$ 0
Deferred outflows of resources	$5,419
Deferred inflows of resources	$ 0
OPEB expenses/(credit)	$ (221,213)

At December 31, 2023, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	N/A
Active employees	28
Total	31

The Port is not able to determine the number of inactive employees entitled to but not yet receiving benefits as eligibility is determined by the Washington State Office of Retirement Services and the Washington State Public Employees Benefit Board. Inactive employees entitled to but not yet receiving benefits would include any former Port employee who retires under the public employees' retirement system and who are vested in that system. Retirees may also elect alternate coverage through Medicare and a Medicare supplemental plan.

A. OPEB Plan Description

The Port of Edmonds provides medical, dental, life, and long-term disability insurance to its full-time employees and Commissioners through the Washington State Public Employees Benefit Board (PEBB). Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Other post-employment benefits (OPEB) are benefits provided to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, life, dental, and vision insurance. PEBB offers retirees access to all of these benefits and PEBB employers, through this single-employer defined benefit plan, provide monetary assistance, or subsidies, these benefits.

The OPEB relationship between PEBB employers and their employees and retirees are not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504-0914 or it may be downloaded from the Office of the State Actuary website at http://leg.wa.gov/osa/Pages/default.aspx.

B. <u>Subsidies</u>

The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidy**,** permitted under RCW 41.05.085, is a straightforward, set dollar amount for a specific group of people. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually.

The implicit subsidy, set up under RCW 41.05.022, is more complex because it is not a direct payment from the employer on behalf of the member. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retirees.

C. <u>Funding Policy</u>

The Port funds the implicit and explicit subsidies on a pay-as-you-go basis, meaning that Port pays these costs as they occur or become due. Therefore, there are no assets accumulating in a qualifying trust.

<u>Actuarial Methods and Assumptions</u>

The Port used the alternative measurement method permitted under GASB Statement No. 75 and provided by the Office of the State Actuary. The Office of the State Actuary made the following assumptions:

- 3/4 of members select a Uniform Medical Plan (UMP) and 1/4 select a Kaiser Permanente (KP) plan.
- UMP pre- and post-Medicare costs and premiums are equal to the Uniform Medical Plan Classic.
- The KP pre-Medicare costs and premiums are a 40/60 blend of KP WA Classic and KP WA Value.
- The KP post-Medicare costs and premiums are equal to KP Medicare.

No inactive members entitled to but not currently receiving a benefit were included in the calculation.

The actuary estimated retirement service for each active employee based on the average entry age of 35 with a minimum service of 1 year. For example, an age 47 member is assumed to have 12 years of service. Service is a component of benefit eligibility.

Assumptions made for retirement, disability, termination, and mortality were based on the most recent *PEBB OPEB* valuation as of the publication date of the Office of State Actuary's calculation tool. For simplicity, the Office of the State Actuary assumed:

- Based on an average expected retirement age of 65, they applied active mortality rates for ages less than 65 and retiree mortality rates for ages 65+.
- Each primary member was assumed to be a 50/50 male/female split.
- 45% of current and future retirees cover a spouse.
- Eligible spouses are the same age as the primary member.
- Age-based primary members were selected for the tool based on the overall distribution of State employees and retirees that participate in PEBB.
- Dental benefits were not included when calculating the Total OPEB Liability.

Other assumptions include:

Discount Rate[1]	
Beginning of Measurement Year	3.54%
End of Measurement Year	3.65%
Projected Salary Changes	3.25% + Service-Based Increases
Healthcare Trend Rates[2]	Initial rate ranges from about 2-16%, reaching an ultimate rate of approximately 3.8% in 2075.
Mortality Rates	
Base Mortality Table	PubG.H-2010 (General)
Age Setback	0 years
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
Inflation Rate[3]	2.35%
Post-Retirement Participation Percentage	60%
Percentage with Spouse Coverage	45%

[1] *Source: Bond Buyer General Obligation 20-Bond Municipal Index.*

[2] *Trend rate assumptions vary by medical plan. For additional detail on the healthcare trend rates, please see our PEBB OPEB Healthcare Trend Assumptions webpage.*

[3] *Based on the Consumer Price Index (CPI): Urban Wage Earners & Clerical Workers, U.S. City Average, WA - All Items.*

The following sensitivity analysis presents the total OPEB liability of the Port calculated using the assumptions above.

Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	$725,878	**$609,416**	$516,793
Healthcare Trend	$501,452	**$609,416**	$751,583

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of changes in total OPEB liability and related ratios is presented as required supplementary information following the notes to the financial statements.

D. Changes in the Total OPEB Liability

The following table shows the components of the Port's annual OPEB expense for the year, the benefit payments made, and changes in the Port's total OPEB liability as of June 30, 2023. The current portion of OPEB liability of $10,838 is included as a current liability and the long-term portion of the OPEB liability of $598,578 is included as a noncurrent liability in the Statement of Net Position.

Other Post Employment Benefits

Total OPEB Liability at 7/1/2022	$ 844,332
Service Cost	45,644
Interest Cost	31,265
Changes in Experience Data and Assumptions	(298,122)
Changes in Benefit Terms	-
Benefit Payments	(13,703)
Other	-
Total OPEB Liability at 6/30/2023	$ 609,416

The Port of Edmonds used the alternative measurement method, which does not calculate deferred outflows and inflows for anything other than payments subsequent to the measurement date. Payments subsequent to the measurement date of 6/30/2023 were $5,419, which will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2024.

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Changes of assumptions	$0	$0
Payments subsequent to the measurement date	$5,419	$0
Total	$5,419	$0

E. Funded Status and Funding Progress

In order to fund the OPEB plan, the Port would have to establish an irrevocable trust, which means that the Port would no longer have control of the money put into the trust. Even if the Port left the PEBB program, the Port would not be able to get the money out of the trust. The plan is funding on a pay-as-you go basis and there are no assets accumulating in a qualifying trust.

NOTE 9 – RISK MANAGEMENT

Port of Edmonds 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, 2023, there were 518 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:				
General Liability	Per Occurrence	$1 million	$20 million	$1,000 - $100,000
Automobile Liability	Per Occurrence	$1 million	$20 million	$1,000 - $100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	$1 million	$20 million $20 million	$1,000 - $100,000
Terrorism Liability(2)	Per Occurrence Pool Aggregate	$500,000 $1 million	None	$1,000 - $100,000
Employment Practices Liability	Per Occurrence Member Aggregate	$1 million	$20 million $20 million	20% Copay(3)

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

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

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

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements 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 10 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance 1/1/2023	Additions	Reductions	Ending Balance 12/31/2023	Due Within One Year
Leased asset liability	$ 18,510		$ 4,911	$ 13,599	$ 5,062
Other post employment benefits	844,332	76,909	311,825	609,416	10,838
Net pension liability	360,297	-	48,636	311,661	-
Environmental remediation liability	612,500	-	-	612,500	-
Underground storage tank retirement	289,025	16,763	-	305,788	-
Total Long-Term Liabilities	$ 2,124,664	$ 93,672	$ 365,372	$ 1,852,964	$ 15,900

NOTE 11 - LEASES

A. Lessee Activity

The Port of Edmonds has entered into three 60-month equipment lease agreements in the total amount of $450 per month. Variable payments are required based on the number of copies made.

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

	Beginning Balance 1/1/2023	Increases	Decreases	Ending Balance 12/31/2023
Leased Equipment	$ 25,129			$ 25,129
Accumulated Amortization on Lease Equipment	$ 6,899	$ 5,026		$ 11,925

2023 outflows of resources from lease activity were as follows:

Principal Payments in 2023	$	4,911
Interest Expense on Leased Asset		422
Variable Payments		2,168
Total	$	7,501

As of December 31, 2023, the principal and interest requirements to maturity are as follows:

Year Ended December 31	Principal	Interest	Total
2024	$ 5,056	$ 323	$ 5,379
2025	$ 5,199	$ 180	$ 5,379
2026	$ 2,812	$ 49	$ 2,861
2027	$ 532	$ 5	$ 537
Total	$ 13,599	$ 557	$ 14,156

B. Lessor Activity

Leases subject to GASB Statement No. 87 have a fixed term that exceed one year. Therefore, moorage, dry storage, and other month-to-month leases are not considered in the discussion below. Many partial building lease agreements begin as a one-year, three-year, or five-year agreement and then are extended numerous times. The terms listed in the graph below are the total length of time the tenant has been leasing from the Port.

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

Lease Type	Full Service or NNN	Number of Leases	Term (Years)	Remaining Extensions	Monthly Rent	Rent Increases
Land Lease	NNN	1	50	Two 15-year terms	$ 6,394	CPI annually
Land Lease	NNN	1	35	None	$ 10,033	CPI and FMV alternating 5 years
Land Lease	NNN	1	34	Eight 5-year terms	$ 14,147	CPI annually
Land Lease	NNN	1	30	Two 15-year terms	$ 6,091	CPI annually, FMV every 5 years
Land Lease	NNN	1	30	Two 10-year terms	$ 5,161	2.5% annually
Building Lease	NNN	1	40	Eight 5-year terms	$ 26,850	FMV every 5 years
Partial Building Lease	NNN	1	35	Three 10-year terms	$ 18,927	None, minimum annual guarantee
Partial Building Lease	NNN	4	21-25	None	$1,730 - $17,059	CPI annually
Partial Building Lease	Full Service	3	20-21	None	$2,687 - $12,467	CPI annually
Partial Building Lease	NNN	3	17-19	None	$1,098 - $4,651	CPI annually
Partial Building Lease	Full Service	2	16	None	$2,587 - $5,525	CPI annually
Partial Building Lease	NNN	1	16	None	$ 2,244	CPI annually
Partial Building Lease	Full Service	6	11-15	None	$691 - $4,152	CPI annually
Partial Building Lease	Full Service	1	11	None	$ 2,331	3% annually
Partial Building Lease	NNN	1	10	Two 5-year terms	$ 5,006	CPI annually
Partial Building Lease	Full Service	1	10	One 5-year terms	$ 4,646	CPI or 3%, whichever is lesser, annually
Partial Building Lease	Full Service	2	9-10	None	$848 - $2,045	CPI annually
Partial Building Lease	Full Service	1	8	Three 1-year term	$ 1,801	CPI annually
Partial Building Lease	NNN	2	6-7	None	$2,156 - $2,903	CPI annually
Partial Building Lease	NNN	1	5	Two 2-year terms	$ 4,393	CPI annually
Partial Building Lease	NNN	1	5	One 2-year terms	$ 3,538	CPI annually
Partial Building Lease	Full Service	4	2-4	None	$813 - $3,357	CPI annually

Variable payments include common area maintenance charges for triple net (NNN) leases, utilities for some triple net leases, and a percentage of sales on a minimum annual guarantee lease agreement. In a triple net lease agreement, the tenant agrees to pay real estate taxes, building insurance, and maintenance, in addition to rent and utilities. Common area maintenance charges include utilities, repairs, and maintenance to common spaces like entryways, elevators, and restrooms in buildings and parking lots.

2023 inflows of resources from lease activity were as follows:

Lease Revenue from Lease Receivable	$ 1,736,163
Interest Revenue	552,840
Variable Payments	309,449
Other Lease-Related Inflows Not Included in Lease Receivable Measurement	200,604
Total	$ 2,799,056

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

Year Ended December 31	Principal	Interest	Total
2024	$ 1,491,283	$ 518,856	$ 2,010,139
2025	$ 1,177,454	$ 435,702	$ 1,613,156
2026	$ 954,661	$ 373,893	$ 1,328,554
2027	$ 710,033	$ 331,717	$ 1,041,750
2028	$ 723,154	$ 299,468	$ 1,022,622
2029-2033	$ 3,347,249	$ 1,070,727	$ 4,417,976
2034-2038	$ 2,519,728	$ 496,204	$ 3,015,932
2039-2043	$ 1,142,370	$ 85,827	$ 1,228,197
2044-2048	$ 54,259	$ 810	$ 55,069
Total	$ 12,120,191	$ 3,613,204	$ 15,733,395

NOTE 12 – CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes that it is probable that the Port will have to make payment. In the opinion of management, the Port's cash and cash equivalents and insurance policies are adequate to pay all known or pending claims.

NOTE 13 – ENVIRONMENTAL REMEDIATION OBLIGATIONS

The Port of Edmonds is subject to laws and regulations relating to the protection of the environment. The Port's policy is to accrue environmental and cleanup related costs when it is both probable that a liability has been incurred and when the amount can be reasonably estimated.

GASB Statement No. 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB Statement No. 49 identifies five "obligating events" that require a government agency to disclose future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the government agency must document the components of expected pollution remediation outlays that are reasonably estimable. At this time, the Port has determined that future cleanup costs associated with one site constitute the Port's pollution remediation obligations.

A. Nature and Source of Pollution Remediation Obligations

From 2003 to 2006, the Port of Edmonds was involved in cleaning up a property known as the Harbor Square property, which was purchased by the Port from the Union Oil Company in 1978. From 1924 to 1968, portions of the property were used as an oil and gasoline depot and distribution facility, a railcar cleaning facility, an asphalt batch plant, and heavy-equipment storage. Several remedial investigations were conducted at the property from 1989 to 2003. In June 2003, a supplemental site investigation was conducted at the direction of the Department of Ecology to further define the extent of contamination at the property identified during previous investigations, to help identify any additional areas of contamination, and to further evaluate any impacts to groundwater. The Port developed a remediation plan based on that investigation and commenced cleanup activities.

The Port's environmental engineering firm, Landau Associates, prepared a report for the Port of Edmonds in November 2003 that provided estimates of the cost of remediation activities at the Port of Edmonds' Harbor Square complex due to past industrial activities at the site. The estimated costs presented in the report are for all remediation activities anticipated at the site, which are described as Phase I through Phase III remediation in the report. Phase I and Phase II remediation efforts were essentially completed in 2005 and 2006. Phase III remediation remains to be completed.

B. <u>Amount of Estimated Liability</u>

The estimated cost of Phase III remediation was a range of $150,000 to $900,000, reflecting the uncertainty of the extent of contamination under existing structures that could not be readily accessed for assessment. Landau Associates estimates the liability to the Port of Edmonds associated with the future cleanup of known areas of contamination on Port property to be $175,000 to $1,050,000 (in 2008 dollars). The middle point of this estimated range is $612,500.

As per GASB Statement No. 49, "Estimates of a pollution remediation liability should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays due to, for example, changes in the remediation plan or operating conditions. These changes may include the type of equipment, facilities, and services that will be used, price increases or reductions for specific outlay elements such as ongoing monitoring requirements, changes in technology, and changes in legal or regulatory requirements."

The Port did not meet any benchmarks or receive new information that indicates changes in estimated outlays in 2023. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2023.

C. Methods and Assumptions Used for the Estimate

The majority of the contamination to be addressed in Phase III remediation is located under existing buildings; some areas of residual contamination (expected to be relatively small) are located outside building footprints, but underneath paved surfaces. Phase III activities were not undertaken due to the inaccessibility of the contaminated areas, although the Port has committed to remediation at such time that the structures at the Harbor Square complex are removed for future development.

The Port has chosen to use only the best case and worse case for the ranges of potential outcomes. As the Port does not have a reasonable basis for specifying the probability and amount of a most likely potential cash flow, it is using only two data points, a range of $175,000 to $1,050,000.

D. Potential for Changes

Phase III remediation may only be completed when the Harbor Square property is redeveloped, this estimate may be revised due to price increases or reductions, technology, and applicable laws or regulations.

E. Estimated Recoveries Reducing the Liability

The Port does not expect to receive any recoveries to reduce this liability.

NOTE 14 – UNDERGROUND STORAGE TANK RETIREMENT OBLIGATION

The Port owns and operates a marina fueling facility. The fuel dispensers are supplied by 3 12,000 gallon, double-walled underground storage tanks that were installed in 1995. Washington Administrative Code (WAC) 173-360A requires owners and operators to monitor the tanks for leakage, provide insurance coverage for all leakage, submit to periodic testing of the tanks and monitoring equipment, provide training for certain staff, and to properly close the underground storage tanks when they are no longer needed.

The Port has chosen to measure the ARO based on the cost estimate for decommissioning and removing one 20,000 gallon gasoline underground storage tank prepared by DH Environmental, Inc. in October 2019, for the Port of Seattle. The estimate totaled $82,382. Multiplying by the 3 tanks the Port owns, results in a liability of roughly $250,000. This amount is reviewed annually to account for the effects of inflation or deflation, and to consider any factors significantly affecting the estimate; such as changes in technology, changes in legal or regulatory requirements, and changes to the type of equipment or services that may be used to decommission the underground storage tanks. As of December 31, 2023, the asset retirement obligation for the Port’s three underground storage tanks was $305,788, an increase of 6.0% over 2022 to reflect the effects of inflation on the Port’s estimate.

GASB 83 is retroactive to the date of the internal obligating event in September 1995 and is effective over the life of the underground storage tanks. The tanks originally had a 20 year estimated life, which was reevaluated in 2019 and increased to 40 years.

Upon retirement of the underground storage tanks, the Port will fund the decommissioning out of current reserves. There are no assets restricted for the payment of this liability.

SUPPLEMENTARY INFORMATION

Port of Edmonds
Schedule of Proportionate Share of the Net Pension Liability
Washington State Public Employee Retirement Systems Plan 1
As of June 30, 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability (asset)	0.014396%	0.013921%	0.012421%	0.013252%	0.013704%	0.013185%	0.013353%	0.012940%	0.013653%
Employer's proportionate share of the net pension liability	$ 753,045	$ 747,623	$ 589,386	$ 591,839	$ 526,967	$ 465,502	$ 163,071	$ 360,297	311,661
TOTAL	$ 753,045	$ 747,623	$ 589,386	$ 591,839	$ 526,967	$ 465,502	$ 163,071	$ 360,297	311,661
Employer's covered employee payroll	$ 1,561,301	$ 1,570,980	$ 1,566,327	$ 1,762,667	$ 1,923,048	$ 2,004,169	$ 2,052,184	$ 2,116,398	$ 2,434,719
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	48.23%	47.59%	37.63%	33.58%	27.40%	23.23%	7.95%	17.02%	12.80%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%	88.74%	76.56%	80.16%

Port of Edmonds
Schedule of Proportionate Share of the Net Pension Liability
Washington State Public Employee Retirement Systems Plans 2 & 3
As of June 30, 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability (asset)	0.016797%	0.016216%	0.015976%	0.017057%	0.017692%	0.017211%	0.017158%	0.016886%	0.017612%
Employer's proportionate share of the net pension liability (asset)	$ 600,166	$ 816,463	$ 555,090	$ 291,233	$ 171,849	$ 220,119	$ (1,709,213)	$ (626,265)	$ (721,860)
TOTAL	$ 600,166	$ 816,463	$ 555,090	$ 291,233	$ 171,849	$ 220,119	$ (1,709,213)	$ (626,265)	$ (721,860)
Employer's covered employee payroll	$ 1,490,532	$ 1,505,056	$ 1,566,327	$ 1,762,667	$ 1,923,048	$ 2,004,169	$ 2,052,184	$ 2,116,398	$ 2,434,719
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	40.27%	54.25%	35.44%	16.52%	8.94%	10.98%	-83.29%	-29.59%	-29.65%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%	120.29%	106.73%	107.02%

Port of Edmonds
Schedule of Employer Contributions
Washington State Employee Retirement Systems Plan 1
As of December 31, 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Statutorily or contractually required contributions	$ 71,356	$ 76,567	$ 80,995	$ 93,588	$ 97,764	$ 98,108	$ 87,180	$ 85,848	$ 87,742
Contributions in relation to the statutorily or contractually required contributions	$ (71,356)	$ (76,567)	$ (80,995)	$ (93,588)	$ (97,764)	$ (98,108)	$ (87,180)	$ (85,848)	$ (87,742)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$1,538,725	$1,564,005	$1,652,801	$1,849,424	$1,974,739	$2,046,919	$2,013,352	$2,288,483	$ 2,568,753
Contributions as a percentage of covered employee payroll	4.64%	4.90%	4.90%	5.06%	4.95%	4.79%	4.33%	3.75%	3.42%

Port of Edmonds
Schedule of Employer Contributions
Washington State Employee Retirement Systems Plans 2 & 3
As of December 31, 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Statutorily or contractually required contributions	$ 82,765	$ 95,473	$ 113,423	$ 138,691	$ 152,328	$ 162,117	$ 144,840	$ 145,548	163,373.21
Contributions in relation to the statutorily or contractually required contributions	$ (82,765)	$ (95,473)	$ (113,423)	$ (138,691)	$ (152,328)	$ (162,117)	$ (144,840)	$ (145,548)	$ (163,373)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$1,469,808	$1,532,480	$1,652,801	$1,849,424	$1,974,739	$2,046,919	$2,013,352	$2,288,483	$ 2,568,753
Contributions as a percentage of covered employee payroll	5.63%	6.23%	6.86%	7.50%	7.71%	7.92%	7.19%	6.36%	6.36%

Port of Edmonds
Schedule of Changes in Total OPEB Liability and Related Ratios
As of June 30, 2023

	2018	2019	2020	2021	2022	2023
Total OPEB liability - beginning	$ 1,052,444	$ 1,079,896	$ 1,122,307	$ 1,409,327	$ 1,101,356	$ 844,332
Service cost	61,926	52,469	57,899	93,572	78,277	45,644
Interest cost	39,645	43,460	40,945	32,925	25,343	31,265
Changes in benefit terms	-	-	-	-	-	(298,122)
Changes in experience data and assumptions	(60,067)	(34,624)	209,026	(408,158)	(347,862)	-
Benefit payments	(14,052)	(18,894)	(20,850)	(26,310)	(12,782)	(13,703)
Other changes	-	-	-	-	-	-
Total OPEB liability - ending	$ 1,079,896	$ 1,122,307	$ 1,409,327	$ 1,101,356	$ 844,332	$ 609,416
Covered-employee payroll	$ 1,762,667	$ 1,923,048	$ 2,004,169	$ 2,052,184	$ 2,116,398	$ 2,434,719
Total OPEB liability as a % of covered payroll	61.26%	58.36%	70.32%	53.67%	39.89%	25.03%

Port of Edmonds

Schedule 01

For the year ended December 31, 2023

MCAG	Fund #	Fund Name	BARS Account	BARS Name	Amount
1759	401	Operations	3081900	Restricted Net Position - Beginning	$626,265
1759	401	Operations	3086000	Net Investment in Capital Assets - Beginning	$27,543,831
1759	401	Operations	3088900	Unrestricted Net Position - Beginning	$22,636,433
1759	401	Operations	3111000	Property Tax	$626,023
1759	401	Operations	3331500	Federal Indirect Grant from Department of Interior	$26
1759	401	Operations	3332100	Federal Indirect Grant from Department of Treasury	$250,000
1759	401	Operations	3445000	Sales of Fuel	$2,015,888
1759	401	Operations	3446000	Airports and Ports Services	$9,532,362
1759	401	Operations	3611000	Investment Earnings	$962,626
1759	401	Operations	3613000	Gains (Losses) on Sale of Investments	$81,795
1759	401	Operations	3614000	Other Interest	$552,840
1759	401	Operations	3730000	Gains (Losses) on Capital Assets	($2,573)
1759	401	Operations	5014600	Depreciation, Depletion, Amortization - Airports and Ports	$1,371,659
1759	401	Operations	5460010	Airports and Ports	$2,831,530
1759	401	Operations	5460020	Airports and Ports	$598,760
1759	401	Operations	5460030	Airports and Ports	$2,107,201
1759	401	Operations	5460040	Airports and Ports	$1,830,047
1759	401	Operations	5914670	Debt Repayment - Airports and Ports	$4,911
1759	401	Operations	5924680	Interest and Other Debt Service Cost - Airports and Ports	$422
1759	401	Operations	5944660	Capital Expenditures/Expenses - Airports and Ports	$7,139,607
1759	401	Operations	5985040	Other Nonoperating Expenses - Services	$10,329
1759	401	Operations	5081900	Restricted Net Position - Ending	$721,860
1759	401	Operations	5086000	Net Investment in Capital Assets - Ending	$33,392,595
1759	401	Operations	5088900	Unrestricted Net Position - Ending	$21,961,087
1759	401	Operations	8100000	Current Assets	$9,485,414
1759	401	Operations	8200000	Other Current Assets	$2,065,014
1759	401	Operations	8300000	Noncurrent Assets	$59,768,214
1759	401	Operations	8400000	Deferred Outflows	$707,962
1759	401	Operations	8500000	Current Liabilities	$1,682,913
1759	401	Operations	8600000	Noncurrent Liabilities	$1,837,064
1759	401	Operations	8700000	Deferred Inflows	$12,431,086

Port of Edmonds
Schedule of Liabilities
For the Year Ended December 31, 2023

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.57	Leased asset liability	6/30/2027	18,510	-	4,911	13,599
264.40	Other post-employment benefits		844,332	76,909	311,825	609,416
264.30	Net pension liability		360,297	-	48,636	311,661
263.93	Environmental remediation liability		612,500	-	-	612,500
263.93	Underground storage tank retirement		289,025	16,763	-	305,788
	Total Revenue and Other (non G.O.) Debt/Liabilities:		**2,124,664**	**93,672**	**365,372**	**1,852,964**
	Total Liabilities:		**2,124,664**	**93,672**	**365,372**	**1,852,964**

Port of Edmonds
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via Washington State Parks and Recreation)	Clean Vessel Act	15.616	CV 921-115	26	-	26	-	
		Total Federal Awards Expended:		**26**	-	**26**	-	

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the Port's financial statements. The Port uses Generally Accepted Accounting Principles (GAAP) as applied to governments.

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 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.