



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

November 3, 2022

Board of Commissioners
Port of Kennewick
Kennewick, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Port of Kennewick for the fiscal year ended December 31, 2020. The Port contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

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

PORT OF KENNEWICK
BENTON COUNTY, WASHINGTON

1699
MCAG No.

ANNUAL FINANCIAL REPORT

Submitted pursuant to RCW 43.09.230

to the

WASHINGTON STATE AUDITOR'S OFFICE

**For the Fiscal Year Ended
December 31, 2020**

Certified correct as of February 4, 2022 to the best of my knowledge and belief:

PREPARED BY:

TAMMY FINE, CPA, CFE, CGMA

**PORT OF KENNEWICK
ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2020**

TABLE OF CONTENTS

INTRODUCTORY SECTION

List of Commissioners and Employees	2
Letter of Introduction	3

FINANCIAL SECTION

Independent Auditors' Report	4-5
Management's Discussion and Analysis	6-12
Statement of Net Position	13-14
Statement of Revenues, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16-17
Notes to Financial Statement	18-41

REQUIRED SUPPLEMENTAL INFORMATION

Other post-employment benefits (OPEB) Schedule of changes in total OPEB liability and related ratios, and schedules of the Port's proportionate share of net pension liability and contributions.	42-44
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45-46

PORT OF KENNEWICK

ANNUAL FINANCIAL REPORT

For the Year Ending December 31, 2020

COMMISSIONERS

Don Barnes	President
Thomas Moak	Vice President
Skip Novakovich	Secretary

PORT OFFICERS/DIRECTORS

Tim Arntzen	Chief Executive Officer
Tana Bader-Inglima	Deputy Chief Executive Officer
Nick Kooiker	Chief Financial Officer & Auditor
Amber Hanchette	Director of Operations & Real Estate
Larry Peterson	Director of Planning & Development
Tammy Fine	Advisor & CPA, CGMA, CFE

PORT STAFF

Bridgette Scott	Executive Assistant
Kandy Yates	Marina Manager & Office Assistant
Jen Roach	Accounting Administration Assistant
Lisa Schumacher	Special Projects Coordinator
Mike Boehnke	Facilities Manager
Mike Melia	Maintenance Technician
Anthony Eleshio	Maintenance Technician

MISSION STATEMENT

To provide and support sound economic growth opportunities,
Which foster new business, industry and jobs, improve infrastructure and enhance the quality of life for the Port
district citizens.

February 4, 2022

Board of Commissioners
Port of Kennewick
350 Clover Island Drive, Suite 200
Kennewick, WA 99336

Dear Commissioners:

The 2020 Annual Financial Report of the Port of Kennewick (Port) as of and for the year ended December 31, 2020 is hereby submitted for your review. Responsibility for the accuracy of the data, the completeness and fairness of presentation, including all disclosures, rests with the management of the Port. The Port has established a comprehensive framework of internal controls to provide reasonable assurance that the financial statements are free from any material misstatements. I believe the data, as presented, is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the transactions of the Port, and that all disclosures necessary to gain a reasonable understanding of the Port's financial affairs have been included.

The financial report includes detailed financial information as well as statistical data relevant to the operations of the Port. The enclosed Annual Financial Report is prepared using generally accepted accounting principles. The Port's financial statement is audited to ensure it conforms to applicable accounting standards and compliance with State and Federal laws.

A firm of independent auditors is engaged to conduct an audit of the Port's financial statements in accordance with auditing standards generally accepted in the United States of America. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatements. The independent audit report is included in the Annual Financial Report upon audit and is also located at the Washington State Auditor's Office website.

The preparation of this report on a timely basis could not be accomplished without the dedication of the entire Port staff. I would like to express appreciation to all staff members who assisted and contributed to the preparation of this Annual Financial Report. I would also like to thank the Port Commissioners for their interest and support in planning and conducting the Port's financial operations in both a responsible and progressive manner in the best interest of our taxpayers.

Sincerely,

Tammy Fine, CPA, CFE, CGMA



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Port of Kennewick
Kennewick, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Kennewick, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port of Kennewick as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2022, on our consideration of the Port of Kennewick's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Port of Kennewick's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port of Kennewick's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Yakima, Washington
February 4, 2022

Port of Kennewick

MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ended December 31, 2020

INTRODUCTION

The following is the Port of Kennewick (Port) Management's Discussion and Analysis (MD&A) of financial activities and the performance for the calendar year ended December 31, 2020, with selected comparative information for the year ended 2019. The design of the discussion and analysis is to assist the reader in focusing on the significant financial activities of the Port, to identify any significant changes in financial position, and to serve as an introduction to the Port's financial statements.

This report also presents certain required supplementary information regarding capital assets and long-term debt activity (if any) during the year, including commitments made for capital expenditures. Information contained in the MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statements of Net Position and Revenues, Expenses, and Changes in Net Position shows the Port's overall financial position and an understanding on the operations of the Port, to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. Over time, increases or decreases in net position may serve as an indicator of whether the Port is financially stable or if there are any concerns.

The Statement of Revenues, Expenses, and Changes in Net Position shows how the Port's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and non-capital and capital related 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 assets is also included.

The Notes to Financial Statements provide the reader additional detailed information that may not be apparent from the actual financial statements. The Notes to Financial Statements are essential to a full understanding of the data contained in the financial statements and can be found immediately following the financial statements.

FINANCIAL REPORT

Financial Highlights

The Port's overall financial condition has improved over the prior year based on several financial highlights stated below:

- The Port's assets exceeded its liabilities at close of calendar year 2020 by \$60.5 million.
- The Port has approximately \$4.6 million outstanding debt.
- The Port's overall operating revenues in 2020 increased by approximately \$66.7 thousand or 5.2% from 2019 while operating expenses before depreciation increased by approximately \$47.9 thousand or 1.02%.
- The Port's non-operating revenues over non-operating expenses were just under \$3.2 million.
- The Port's net position increased by \$750 thousand due to the increase in total revenues over total expenses, which represents a healthy organization.
- There are no known significant liabilities or contingencies that will negatively impact the Port's future financial position.

Financial Position Summary

The Statement of Net Position presents the financial position of the Port as of December 31, 2020. The statement includes all the Port's assets and deferred outflows and liabilities and deferred inflows. As described earlier, the net position serves as an indicator of the Port's financial position. A condensed comparison of the Port's assets, liabilities, deferred inflows and outflows of resources, and net position at December 31, 2020 and 2019 follows:

PORT OF KENNEWICK'S Net Position

	<u>2020</u>	<u>2019</u>
Current assets	\$ 12,554,668	\$ 8,925,254
Other assets	1,316,000	1,316,000
Capital assets	53,725,650	52,286,757
Total assets	67,596,318	62,528,011
Deferred Outflows of Resources	165,306	156,561
Noncurrent liabilities	5,787,987	1,230,400
Total liabilities	7,117,342	2,821,251
Deferred Inflows of Resources	152,100	277,513
Net Position:		
Investment in capital assets, net of related debt	48,964,991	51,607,760
Unrestricted	11,527,191	8,134,609
Total net position	\$ 60,492,182	\$ 59,742,369

Capital Assets: The Port's investment in capital assets (land, buildings, improvements, machinery and equipment, and construction in progress), net of related debt is \$48.9 million (net of accumulated depreciation). As described in the notes to the financials, the major capital asset events during 2020 included Columbia Drive and Vista Field redevelopment projects.

Current and Noncurrent Liabilities: The Port's noncurrent liabilities consist of two accounting treatments required by Governmental Accounting Standards Board for reporting the Port's share of Pension liabilities and Other Postemployment Benefits (OPEB). These are non-cash transactions and are not legal liabilities owed by the Port to any third party. The Port also entered into a \$5 million bond. The Port's non-current liabilities increased by \$4.6 million primarily due to the Vista Field construction bond.

The Port's current liabilities consist of warrants and retainage payable, employee accrued paid time off (compensated absences), benefits payable, lease securities payable, and prepaid rents (unearned revenue). Current liabilities decreased by \$105 thousand primarily due to most construction warrants were paid in 2020.

Debt: The Port has approximately \$4.6 million in debt as of December 31, 2020.

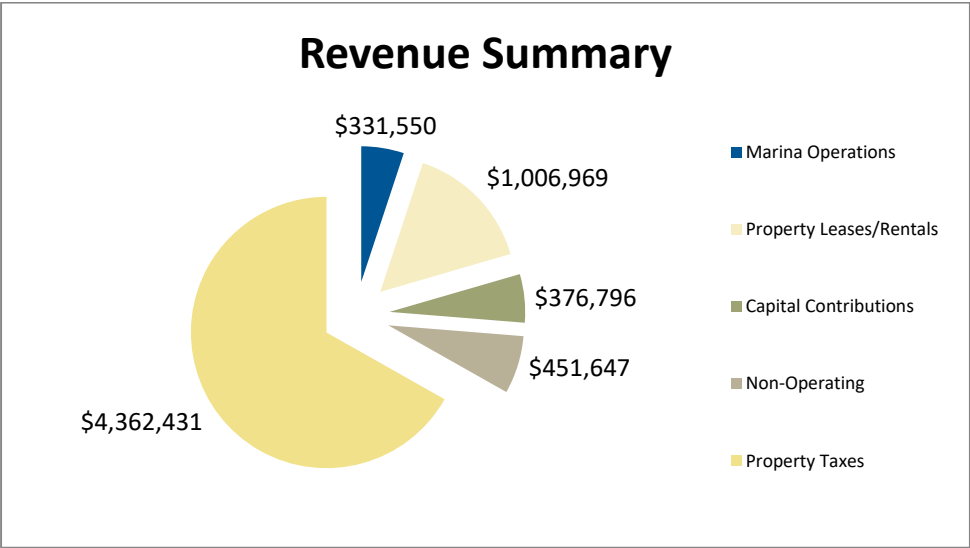
Financial Operating Highlights Summary

The following condensed financial information summarizes the Port's revenues, expenses, and changes in net position:

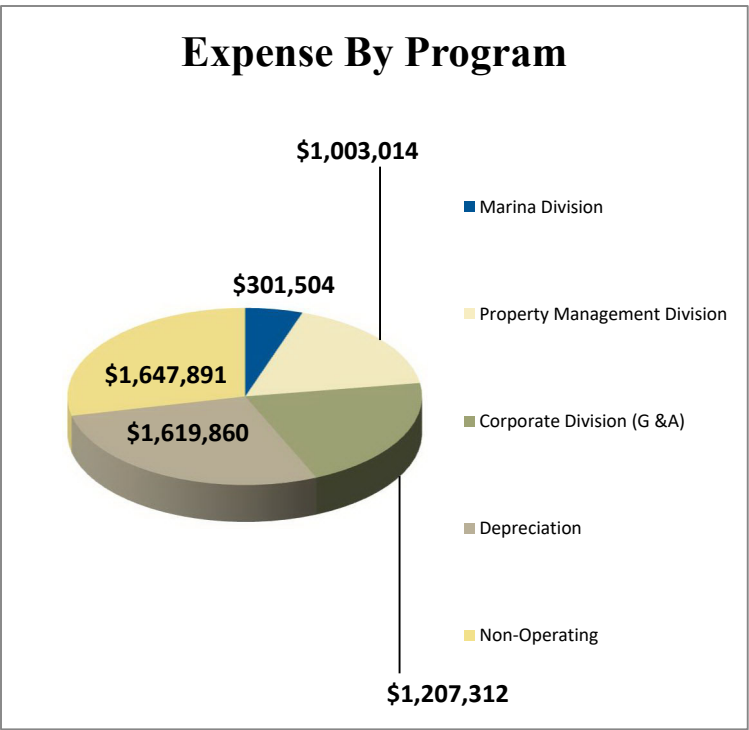
Statement of Revenues, Expenses, and Changes in Net Position

	2020	2019
Operating Revenues	1,338,519	1,271,831
Operating Expenses before depreciation	2,511,829	2,463,899
Total operating loss before depreciation	(1,173,310)	(1,192,068)
Depreciation	1,619,860	1,508,618
Total operating loss after depreciation	(2,793,170)	(2,700,686)
Non-operating revenues (expenses)	(1,196,244)	961,085
Ad valorem tax revenues	4,362,431	4,214,230
Total non-operating revenues (expenses)	3,166,187	5,175,315
Increase in net position, before capital contributions	373,018	2,474,629
Capital contributions	376,796	1,291,794
Increase in net position	749,813	3,766,424
Net position at beginning of year	59,742,369	55,975,945
Net position at end of year	60,492,182	59,742,369

Operating Revenues: 2020 operating revenues amounted to approximately \$1.3 million.



Operating Expenses: 2020 operating expenses before depreciation amounted to just over \$2.5 million.



PORT OUTLOOK AND ECONOMIC FACTORS

Port of Kennewick is engaging in transparent urban planning; working to revitalize Kennewick’s historic waterfront district; partnering with municipalities on life, health and safety benefits; and constructing a regional town-center in place of a former airfield.

At **Vista Field**, the Port is creating a pedestrian-focused development which features mixed-use neighborhoods and urban lifestyle amenities. The first phase of Vista Field infrastructure is now complete including utilities, streets, lighting, landscaping, a pond, fountains, plaza, and a streamside esplanade.

The Port is now working to close out the Vista Field phase one construction contract, transfer streets to the city, and define and then market parcels in the central 20 acres. Lots will be sold to the private-sector for commercial, retail and residential development, and those proceeds will help fund future phases of infrastructure until the entire 103-acre site plan is complete.

The Port will also conduct a study of the Covid-19 pandemic's influence on development trends which may impact the Port/Vista Field; and another assessment to determine potential reuse of the three former airplane hangars.

The Port's Vista Field land holdings are included within a federally designated "Opportunity Zone" which allows a federal tax incentive which is expected to increase economic development by the private sector in this area. At full build-out of the 103 acres, Vista Field is expected to generate more than \$500 million in private-sector investment with more than 1,000 residential units and 740,000 square feet of commercial space.

In addition, the Port will continue its focus on improving and bringing new businesses to **Kennewick's Historic Waterfront District** which includes Clover Island and Columbia Drive.

The Port, City, County, and state have partnered with the U.S. Army Corps of Engineers to restore **Clover Island's** north shoreline and extend the Riverwalk trail. That project is being funded with \$5 million from the US Army Corps of Engineers federal 1135 habitat restoration program funds, and local matching dollars consisting of \$500,000 from a Washington State Recreation & Conservation Aquatic Lands Enhancement Account grant, \$1,000,000 from the Benton County Rural County Capital Fund grant, and \$1,000,000 from the Port's capital funds.

The Corps has completed the engineering and construction design and is preparing that project for bid in 2021. Upon completion of the USACE's Clover Island 1135 project, four upland development parcels will be ready for private-sector development opportunities.

At the **Columbia Gardens Wine & Artisan Village**, the Port constructed a fourth building which brought Cave B Estate Winery and Gordon Estate Winery tasting rooms to the wine village in February of 2020. Those wineries joined Bartholomew Winery and Monarcha/Palencia Wine Company which opened in early 2018.

There are four winery tasting rooms and two wine production facilities at Columbia Gardens, and six food trucks offer a variety of cuisine. In 2020, the Port added a shade structure, lighting, and seating improvements to the food truck plaza. Later this year a restroom will be added; and the Port has identified a need for more shade canopies, signage, another electrical pedestal, fencing, and in-water improvements.

At Columbia Gardens, the Port will sell or ground-lease the remaining shovel-ready parcels to provide opportunities for complementary private-sector development.

Kennewick's Historic Waterfront District (Clover Island and Columbia Drive) has evolved into a destination area with award-winning artworks, great food, wonderful wines, a lighthouse, and recreational path—all nestled

alongside the Columbia River and a scenic nature pond. In the 2021/2022 budget the Port will invest \$500,000 in the City of Kennewick's Washington Street improvement project to better connect the waterfront with historic downtown.

In summer 2020, the Port began a community engagement process to develop a master plan for the Port-owned sites on Clover Island and Columbia Drive. In February 2021, the third and final phase of public input was gathered; consultants are now preparing the final recommendations towards a new master plan for the Port's waterfront properties. The final Kennewick Historic Waterfront District Master Plan will be a citizen-driven document that will help guide potential public and private investments at both Clover Island and Columbia Drive for next decade.

In other parts of its 485-square-mile-district, a Port land sale of 93 acres to the **City of West Richland** enabled construction to start on a new police station. With 20,000 more residents anticipated within the next 20 years, the sale of that property was critical to help the city build their new police station to reduce response times and ensure continued public safety. That land sale is also allowing the city to create opportunities for additional private sector commercial and light industrial development on that site.

In **Richland**, the Port has budgeted to invest \$800,000 in the city's efforts project to upgrade the Island View neighborhood by making road, utility, pedestrian and recreational-access improvements to Columbia Park Trail. The Port is also investing \$400,000 toward the city's Center Parkway extension project—all with the goal of attracting additional private-sector commercial, retail, and employment opportunities to those neighborhoods.

This year, following a two-year commission conduct investigation that was resolved with a finding of no sanctionable misconduct, the commission requested that staff hire a consultant to conduct a detailed **governance audit** to include internal operating policies and the commission ethics policy. This new, prioritized project will take much time and bandwidth. However, staff will remain vigilant to ensure this new endeavor does not negatively impact the many important economic development activities underway.

Challenges & Opportunities: While the community has prioritized these above redevelopment strategies and projects, the Port cannot do them alone. The Port must secure partnerships and leverage funding, and we must remain vigilant to ensure that changing regulations and priorities do not hinder a chance to foster distinctive neighborhoods with a strong sense of place.

As always, Port of Kennewick will endeavor to serve as a catalyst for economic development throughout our 485-square-mile district. Indeed, in all we do, the Port remains mindful that we are stewards of the public's trust: we work to exercise thoughtful planning; give diligent consideration to potential projects; skillfully and transparently communicate our projects, programs, financial standing, and economic impacts; and work to ensure resources and developments are economically sustainable with a positive return to the citizens and taxpayers our region.

Tax Levy. Over the years, the Port of Kennewick has worked to minimize the Port's property tax levy. We strive to keep the Port levy low. Our goal is to be able to offset operational costs and future economic development opportunities with revenue from tenants or developers while keeping tax revenue well below our taxing authority. With those goals in mind, the Port's levy rate has decreased from \$0.44 in 2001 to \$0.28 in 2020 which is a 36% decrease. A \$250 thousand house cost \$110 in Port property taxes in 2001; and just \$70 in 2020.

REQUEST FOR INFORMATION

This annual report is designed to provide citizens, customers, investors, and creditors with a general overview of the Port's finances and to show accountability of public funds. If you have any questions regarding this annual report, or need additional information, please visit our website at www.PortofKennewick.org or contact: Chief Financial Officer, 350 Clover Island Drive, Suite 200, Kennewick, WA 99336; Telephone (509) 586-1186; Fax (509) 582-7678.

Port of Kennewick

STATEMENT OF NET POSITION*
December 31, 2020

Business-Type Activities

ASSETS

Current Assets:

Cash and cash equivalents	\$ 11,944,234
Investment pool valuation account	278,590
Other receivables (net)	84,523
Note receivable	-
Taxes receivable	82,613
Prepaid expenses	164,707
Total current assets	\$ 12,554,668

Noncurrent Assets:

Note Receivable	1,316,000
Capital assets not being depreciated:	
Land	8,651,068
Construction in progress	11,473,504
Capital assets being depreciated:	
Improvements to land	11,417,467
Buildings	37,548,157
Equipment	1,500,056
Less: accumulated depreciation	(16,864,602)
Total capital assets (net)	53,725,650
Total noncurrent assets	\$ 55,041,650

TOTAL ASSETS

\$ 67,596,318

Deferred Outflows of Resources:

Other post-employment benefits	3,822
State Pension	161,484

TOTAL DEFERRED OUTFLOWS OF RESOURCES

\$ 165,306

*The accompanying Notes to Financial Statements are an integral part of these financial statements.

Port of Kennewick
STATEMENT OF NET POSITION*
December 31, 2020

Business-Type Activities

LIABILITIES

Current Liabilities:

Warrants payable	\$ 361,271
Retainage payable under construction contracts	9,777
Compensated absences	339,807
Accrued benefits	180,000
Current portion of long-term debt	319,586
Current portion of unearned revenue	20,917
Lease securities payable	97,997
Total current liabilities	<u>1,329,355</u>

Noncurrent Liabilities:

Long-term debt	4,303,399
Other post-employment benefits liability	1,068,784
Port share of state net pension liability	415,804
Total noncurrent liabilities	<u>5,787,987</u>

TOTAL LIABILITIES	<u>\$ 7,117,342</u>
--------------------------	---------------------

Deferred Inflows of Resources:

State Pension	<u>152,100</u>
---------------	----------------

TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 152,100</u>
--	-------------------

NET POSITION

Net investment in capital assets	48,964,991
Unrestricted	<u>11,527,191</u>

TOTAL NET POSITION	<u>\$ 60,492,182</u>
---------------------------	----------------------

*The accompanying Notes to Financial Statements are an integral part of these financial statements.

Port of Kennewick

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION***

For the Year Ended December 31, 2020

Business-Type Activities

OPERATING REVENUES

Property lease/rental operations	\$ 1,006,969
Marina operations	331,550
Total operating revenues	<u>1,338,519</u>

OPERATING EXPENSES

General operations	777,351
Maintenance	527,166
General and administration	1,207,312
Total before depreciation	<u>2,511,829</u>
Depreciation	1,619,860
Total operating expenses	<u>4,131,689</u>

Operating loss	<u>(2,793,170)</u>
-----------------------	--------------------

NONOPERATING REVENUES (EXPENSES)

Taxes levied for general purposes	4,362,431
Interest income	125,201
Change in fair value of investments	278,590
Gain or (Loss) on disposition of assets	(3,450)
Other nonoperating revenues	51,306
Interest expense	(72,235)
Real estate division expenses	(30,991)
Economic development division expenses	(216,353)
Public, election, OPEB, Pension, & governmental relations expenses	(1,328,313)
Total nonoperating revenues (expenses)	<u>3,166,187</u>

Income before capital contributions	<u>373,017</u>
--	----------------

Capital contributions	376,796
-----------------------	---------

Increase in net position	<u>749,813</u>
---------------------------------	----------------

Net position - beginning of year	\$ 59,742,369
----------------------------------	---------------

Net position - end of year	<u>\$ 60,492,182</u>
----------------------------	----------------------

***The accompanying Notes to Financial Statements are an integral part of these financial statements.**

Port of Kennewick

STATEMENT OF CASH FLOWS*
For the Year Ended December 31, 2020

Business-Type Activities

CASH FLOWS from OPERATING ACTIVITIES

Receipts from customers	\$ 1,274,837
Payments to suppliers	(869,394)
Payments to employees	<u>(1,493,192)</u>
Net cash used by operating activities	<u>(1,087,749)</u>

CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES

Non-capital property taxes received	751,114
Non-operating receipts	51,306
Non-operating expenses	<u>(1,455,626)</u>
Net cash used by noncapital financing activities	<u>(653,206)</u>

CASH FLOWS from CAPITAL AND RELATED FINANCING ACTIVITIES

Capital property taxes received	3,604,525
Proceeds from sale of capital assets	1,000
Principal paid on capital debt	(377,015)
Interest paid on capital debt	(72,235)
Proceeds from capital debt	5,000,000
Purchases of capital assets	<u>(3,604,525)</u>
Capital asset insurance proceeds	582,488
Capital contributions	<u>376,796</u>
Net cash provided by capital and related financing activities	<u>5,511,034</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest and dividends on investments	<u>125,201</u>
Net cash provided by investing activities	<u>125,201</u>

Net increase in cash and cash equivalents 3,895,280

Balance - beginning of the year 8,048,955

Balance - end of the year \$ 11,944,234

***The accompanying Notes to Financial Statements are an integral part of these financial statements.**

Port of Kennewick

STATEMENT OF CASH FLOWS CONTINUED*

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities*
For the Year Ended December 31, 2020

Business-Type Activities

Operating loss	\$ (2,793,170)
----------------	----------------

*Adjustments to reconcile operating loss to net cash
used by operating activities:*

Depreciation expense	1,619,860
Changes in assets and liabilities	
Accounts receivable (net)	(63,697)
Prepayments	32,456
Customer deposits payable	4,399
Warrants payable	110,443
Compensated absences	(1,155)
Accrued benefits	7,500
Unearned revenue	(4,385)
Net cash used by operating activities	<u>\$ (1,087,749)</u>

Non-Cash Activities for Investing and Financing Activities

The noncash portion of these transactions are as follows:

PERS and OPEB liability expense (net)	\$120,030
Change in investment pool valuation account	\$278,590
Increase in payables related to capital assets	\$541,323

***The accompanying Notes to Financial Statements are an integral part of these financial statements.**

Port of Kennewick

NOTES TO FINANCIAL STATEMENT For the Year Ended December 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Port of Kennewick (the “Port”) was formed by citizen vote March 6, 1915 and incorporated on April 12, 1915. The Port operates under the laws of the State of Washington applicable to public Port districts. The Port is governed by an elected three member Board of Commissioners.

The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through operating lease revenues, property sales, and/or property taxes. As required by generally accepted accounting principles (GAAP), the Port has no component units (after considering all potential component units in defining the reporting entity).

B. Basis of Accounting and Reporting

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

The Port statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port’s ongoing operations. The primary operating revenues of the Port are charges to customers primarily for services provided by the Port and for leasing of Port property for the Marine Division and the Property Management Division.

Operating expenses for the Port include expenses associated with the operations of the Marine Division and Property Management Division for the services provided by the Port and for leasing of Port property for the Marine Division and the Property Management Division. Operating expenses also include the cost of sales and services, general and administrative (Corporate Division) expenses as defined below, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital.

The Port uses a Cost Allocation Methodology Plan to allocate the Port's staffing and indirect costs to the Port's various properties, operations, capital (except indirect cost which is not allocated to capital assets) and non-operating divisions. The Corporate Division allocates its general and administrative expenses according to the direct level of services they provide to the divisions; however, a majority of their function is to support all operations, non-operating and capital. The Port's cost allocation methodology does not allocate all corporate costs to the various divisions; however, it does apply an indirect cost allocation based on the direct cost associated with the division, non-operating items, or other special items. The Corporate Division includes, but is not limited to Accounting, Finance & Auditing, Board of Directors, Legal, and Management and Administration.

Non-operating revenues are defined as revenues that do not support the Port's Marine and Property Management Divisions. Non-operating revenues include but are not limited to property tax revenue (Ad Valorem Taxes), gain on sale of assets, capital contributions such as grants, interest income, public revenues, and other miscellaneous income not associated with the Port's Marine and Property Management Divisions.

Non-operating costs are expenses incurred by activities not related to the Marine and Property Management Divisions. Furthermore, some of the non-operating costs are non-recurring in nature and do not support the current operations of the Port; however, they are useful for planning and decision making such as market and feasibility studies. Non-operating costs include, but are not limited to, interest expense; governmental relations consultant; grant seeking and writing; public costs such as responding to public records requests and public awareness marketing campaigns; non-capital studies that do not currently impact or improve the Marine, and Property Management Divisions; other post-employment benefits and pension expenses (which are defined as an accounting liability by the Governmental Accounting Standards Board and are not a legal liability that the Port is required to contribute in the future) and other costs that do not currently impact or improve the Marine or Property Management Divisions, and/or costs that do not meet the capitalization requirements per Governmental Accounting Standards. The definition of operating cost is for accounting purposes only (not to be used for legal definitions and includes but is not limited to bond and debt issuance).

The Economic Development & Planning Division plans and delivers projects as well as provides technical and contracting services in support of the business plans and infrastructure needs of the Port. This division supports all the Port capital assets to be acquired or constructed. As defined by Governmental Accounting Standards, not all Economic Development & Planning Division costs can be capitalized such as indirect costs (e.g. feasibility studies, indirect staffing cost allocation, and miscellaneous office supplies). The above costs are located in the non-operating expenses for this division and all costs, associated directly and properly identified as capital, are reported as capital costs and are located in the capital budget. Capital costs are necessary expenditures and are directly associated with putting a capital asset into place, which includes, but is not limited to planning, direct staffing costs, site readiness costs, construction, and/or acquisition costs.

The Real Estate Division deals with the process of selling and purchasing property in support of the business plans and infrastructure needs of the Port. The Real Estate Division also markets Port properties for sale and provides technical and contracting services in support of the business plans and infrastructure needs of the Port. The associated staffing and indirect costs related to the Real Estate Division are located within the expenses of this division as non-operating and all costs, associated

directly and properly identified as capital, are reported as capital costs and are located in the capital budget.

All assets and all liabilities (whether current or noncurrent) with the associated activity to these accounts are included in the statement of net position (or balance sheet). The reported fund net position is segregated into net investment in capital assets, restricted, and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents the operating, noncapital financing, capital and related financing, and investing activities. Capital asset purchases are capitalized and long-term liabilities are accounted for in the statement of net position (or balance sheet).

C. Use of Estimates

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

D. Pension

For purposes of measuring the net pension liability, 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.

E. Summary of Significant Accounting Policies (Accounting and Reporting Change)

a. Change in Accounting Principle

The District implemented GASB 88 Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements which improves the consistency in the information that is disclosed in the notes related to debt, including direct borrowings and direct placements. The implementation of this standard had no impact on the statement of net position or net income and had a minimal impact in the debt related footnotes.

F. Assets, Liabilities, and Net Position

a. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2020, the Benton County Treasurer held just over \$11.9 million in short-term residual investments of surplus cash as discussed in Note 5, *Deposits and Investments* held in Washington State approved depository. These amounts are classified on the Statement of Net Position as cash and cash equivalents. Interest

on deposits and investments are accounted for on the Statement of Revenues, Expenses, and Changes in Net Position as non-operating revenues.

For purposes of the Statement of Cash Flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

b. Investments – See Note 5, *Deposits and Investments*.

c. Receivables and Unearned Revenues

Taxes receivable consist of property taxes and related interest and penalties. (See Note 12, *Property Tax*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer and tenant accounts receivable consist of amounts owed from private individuals or organizations for goods, services, or leases of property including amounts owed for which billings have not been prepared. The Port classifies prepaid rents from tenants as unearned revenue in the current liability section of the financial statements.

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, closing bars, restaurants, and other entertainment venues, and limiting gathering sizes.

Due to these closures, many businesses in the community have had negative financial impacts. In July 2020, the Port received and granted a \$22 thousand rent deferral request amortized over 15 months. \$4 thousand of that deferred rent was collected in 2020 with a remaining \$18 thousand to be collected in 2021. This deferred rent is reflected in the balance sheet as an accounts receivable. No other rent deferral request is anticipated at this time.

Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered, from insurance proceeds to be received, or from property sales on contract.

d. Capital Assets and Depreciation - See Note 2, *Capital Assets and Depreciation*.

e. Other Assets, Debts, or Liabilities

Lease securities payable are lease securities or deposits held under the terms of certain lease agreements. The Port requires or allows its customers or tenants to provide security to satisfy contractual obligations. The Port classifies these amounts as lease securities and they are included in the current liability in the Statement of Net Position. The Port is allowed to draw from these lease securities in certain events as defined in these agreements, such as defaults or delinquencies in rent payment. The balance is determined by the lease terms and is recalculated according to the provisions of the agreements.

Unearned revenue includes amounts recognized as receivables (assets) but not revenues because the revenue recognition criteria have not been met.

Retainage payable under construction contracts are retainage amounts held and required to be paid upon full legal performance of the contractor. The Port reports the amounts owed to contractors under retainage payable on the Statement of Net Position as a current liability.

Preliminary surveys or planning costs include preliminary costs incurred for proposed construction projects and are included in the construction in progress within the Port's capital assets. If the asset is successfully constructed and placed into service, the related costs become part of the cost of the asset; if the project is abandoned, related costs are charged as a non-operating or operating expense based on its proper operating or non-operating definition previously described.

f. Deferred Outflows/Inflows of Resources

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Port reports a separate section for deferred inflows and outflows of resources. The deferred inflows and outflows consist of OPEB and Pension transactions. See Note 9, *OPEB* and Note 10, *Pension*.

g. Compensated Absences and Accrued Benefits

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Port accrues a liability for compensated absences (e.g. paid time off). The Port records unpaid leave for compensated absences as an expense when earned and a liability when incurred.

Payable upon separation of services from the Port, PTO (paid time off) may be accumulated up to a maximum of 60 days at 100% of an employee's current salary and up to a maximum of 120 days at 50% of an employee's current salary. Employees are also allowed to cash out up to 30 days per year and the CEO up to 40 days per year of their unused PTO balances.

Furthermore, to encourage longevity at the Port, employees who have served for at least five years receive a lump sum payment based on a multiplier and years of service into their HRA VEBA upon separation.

h. Long-Term Debt – See Note 7, *Long-Term Debt and Changes in Long-Term Liabilities*.

NOTE 2 – CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include property, plant and equipment and infrastructure assets (e.g. roads, parking lots, sidewalks, and similar items), are reported in the Statement of Net Position. The Port's policy is to capitalize all assets with an initial, individual cost of \$1,000 or more and an estimated life of more than one year. Such assets are recorded at historical cost (or estimated historical cost, where historical cost is not known) if purchased or constructed. Donated capital assets are recorded at acquisition value (or estimated market value) at the date of donation. Donations by developers (and customers) are recorded at the contract price or acquisition value.

Cost for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. (Obligations under capital leases, if any, are disclosed in Note 6, *Leases* and Note 7, *Long-Term Debt and Changes in Long-Term Liabilities*).

Ongoing major outlays for capital assets and improvements are capitalized under construction in progress (CIP).

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 1 to 50 years. In general, furniture and equipment are depreciated over 5 to 7 years; improvements are depreciated over 15 to 25 years; and buildings are depreciated over 25 to 45 years.

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

In the event of a sale or disposal of a significant capital asset, the original cost is removed from the Port's capital accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold or disposed, and the net gain or loss on disposition is credited or charged to income.

The Port did not have any impaired capital assets in 2020. Capital asset activity for the year ended December 31, 2020 was as follows:

	Beginning Balance January 1	Deletions	Additions	Ending Balance December 31
Capital assets, not depreciated:				
Land	\$ 8,651,068	\$ -	-	\$ 8,651,068
Construction in progress	10,784,713	2,186,622	2,875,413	11,473,504
Total capital assets, not depreciated	19,435,781	2,186,622	2,875,413	20,124,572
Capital assets, depreciated:				
Buildings	35,344,951	-	2,203,206	37,548,157
Improvements other than buildings	11,412,263	-	5,204	11,417,467
Machinery and equipment	1,373,044	38,989	166,001	1,500,056
Total capital assets, depreciated	48,130,258	38,989	2,374,411	50,465,680
Less accumulated depreciation for:				
Buildings	9,306,576	-	863,268	10,169,845
Improvements other than buildings	5,150,285	-	666,613	5,816,898
Machinery and equipment	822,421	34,539	89,978	877,859
Total accumulated depreciation	15,279,282	34,539	1,619,859	16,864,602
Total capital assets, being depreciated (net)	32,850,976	4,450	754,552	33,601,078
Total capital assets (net)	\$ 52,286,757	\$ 2,191,072	\$ 3,629,965	\$ 53,725,650

NOTE 3 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, 2020, The Port had four active planning and construction projects; Vista Field Redevelopment, Columbia Drive Redevelopment, Clover Island Master Plan, and Clover Island Shoreline enhancements. At year-end, the Port's commitments on contract were as follows:

Project	Spent to Date	Remaining Commitment
Vista Field Redevelopment	\$ 6,538,113	\$ 356,179
Columbia Drive Redevelopment, Tasting Room	\$ 1,100	\$ 13,900
Clover Island Master Plan	\$ 93,023	\$ 155,265
Clover Island Shoreline 1135 Project	\$ 810	\$ 44,190
Total	\$ 6,633,046	\$ 569,534

Of the committed balance of approximately \$570 thousand, the Port has sufficient funding available to cover all cost as disclosed in Note 5, *Deposits and Investments*.

NOTE 4 – CONTINGENCIES, LITIGATION, STEWARDSHIP, AND ACCOUNTABILITY

There have been no material violations of financial, accountability, legal or contractual compliance requirements.

The Port has recorded in its financial statements all material liabilities. In the opinion of management, the Port's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

As discussed in Note 7, *Long-Term Debt and Changes in Long-Term Liabilities*, the Port has approximately \$4.6 million long-term debts.

As discussed in Note 3, *Construction Commitments*, the Port has several ongoing projects that are under contract. They are fully funded by the Port's revenues, cash, and investments.

The Port participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenses disallowed under the terms of the grants. Management is not aware of any disallowances; however, if any, these would be immaterial.

In April, 2013, the Port Commission voted to close Vista Field Airport effective December 31, 2013. As of the date of this Financial Report, the Port is not aware of any further contingencies related to the closure of Vista Field Airport.

The Port entered into an interlocal agreement with the City of Kennewick in 2019. The interlocal commits \$1 million from the City's RCCF allocation for development assistance on the Clover Island Shoreline Project (Resolution 2019-04). This project will also create additional marketable land for sale/lease to the public sector.

The Port Commission has directed the Chief Executive Officer to formalize an agreement with the City of Richland, contributing \$800 thousand of Port funding to installing infrastructure and utilities on Columbia Park Trail (Resolution 2020-02). This project will stimulate economic development in the Island View area of Richland, providing more incentive for businesses to relocate there.

Other than the instances described above, the Port Management believes that such disallowances of other grants or the tenant leases, if any, will be immaterial.

NOTE 5 – DEPOSITS AND INVESTMENTS

Deposits

The Benton County Treasurer is the *ex officio* treasurer for the Port of Kennewick and holds all accounts of the Port in the Port's name within the Benton County Treasurer's accounts. The Port directs the County Treasurer to invest Port financial resources which management has determined are not needed to meet the current financial obligations of the Port.

The Port is a participant in the Benton County Treasurer's Investment Pool (TIP), an external investment pool. The Port reports its 2.99% share of the Fair Value variance of the TIP, which is calculated by the net asset value of the Pool per share. Benton County Treasurer is responsible for managing the Pool and has adopted a formal deposit and investment policy pursuant to RCW 36.29.020. The Benton County Finance Committee consists of the Benton County Treasurer as Chair, the Benton County Auditor as Secretary, and the Chair of the Board of Benton County Commissioners. All deposits and investments are subject to written policies and procedures adopted by the Benton County Finance Committee. The philosophy in developing the TIP was to create a locally managed diversified investment option that would take advantage of the economies of scale, simplify administration, and achieve a potentially higher yield than other available programs.

Deposits are classified on the Statement of Net Position as cash and cash equivalents. Investments with maturities of more than three months are classified on the Statement of Net Position as investments. The TIP combines deposits and investments together which averages maturities of more than three months as of December 31, 2020. All of the Port's deposits are either within the Benton County TIP or held in the County's cash account that can be cashed out in their entirety daily or with a ten (10) day notice if over \$10 million as per the Investment Service Agreement. GASB 72 require the Port to report external investment pools at their fair value. Port of Kennewick had \$279 thousand in changes in fair value of the Port's portion of the deposits held in the Benton County TIP. The County's policy is to hold investments until maturity, thus there will be no realized loss or gain recognized.

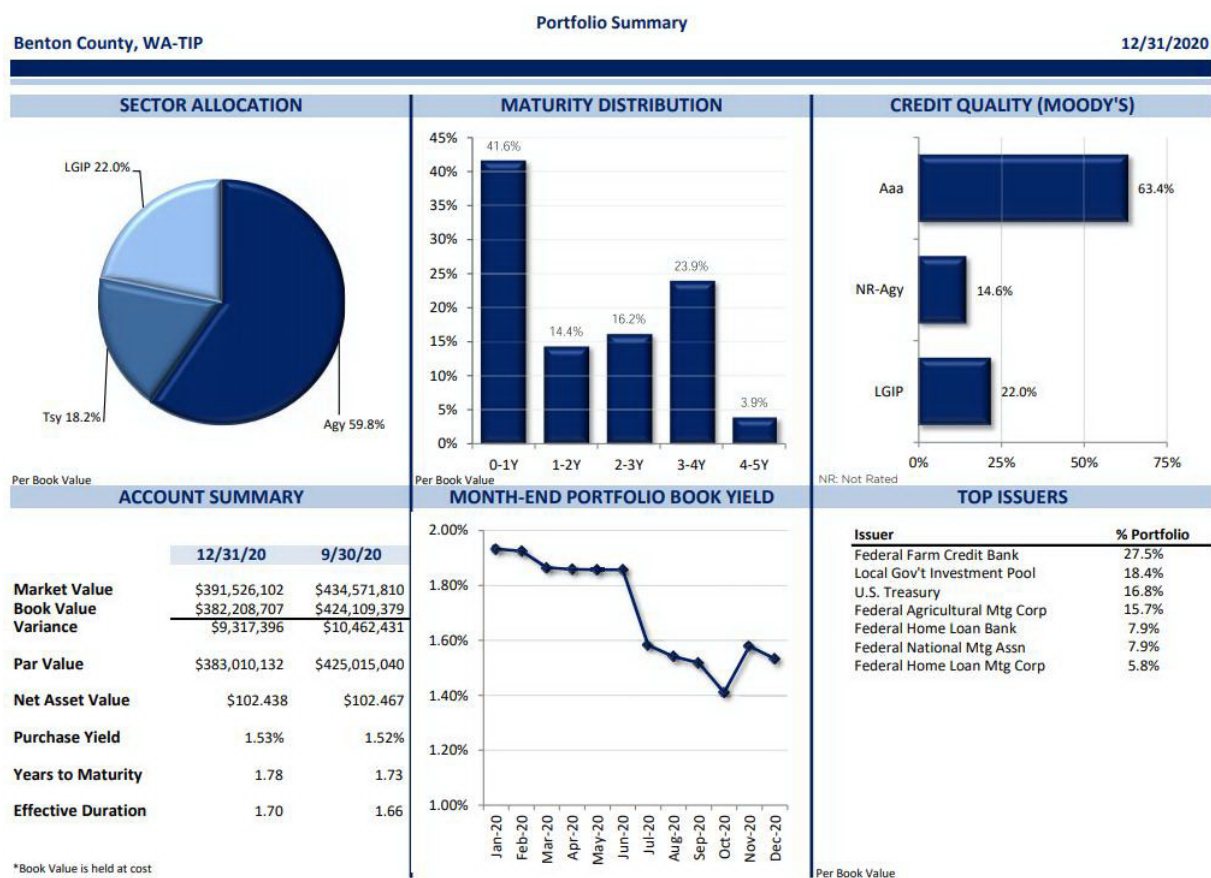
Custodial Risk. Custodial risk for deposits and investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its deposits and investment or collateral securities that are in the possession of an outside party. The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institutions collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Benton County Treasurer's policy dictates that all deposits and investment instruments other than non-negotiable certificates of deposit and monies placed with the Washington State Local Government Investment Pool are transacted on the delivery versus payment basis. This means that payment is made simultaneously with the receipt of the security. Securities are held in safekeeping in the county's name by an institution (custodian) under contract with the county Treasurer. Currently, safekeeping is with Bank of New York Mellon.

Port of Kennewick deposits by type at December 31, 2020 are as follows:

Deposit	Maturity	Carrying Cost	Fair Value Valuation
Benton County (External Investment Pool)	Daily	\$11,929,234	\$278,590
Gesa petty cash	Daily	\$15,000	0
Total		\$11,944,234	\$278,590

The Gesa \$15,000 petty cash account is highly liquid and is held at Washington State approved depositories.

External Investment Pool. The Benton County TIP is not registered with the Securities and Exchange Commission (SEC) as an investment company and does not have a credit rating. Oversight is provided by the Benton County Finance Committee. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. In 2012, the Board of Commissioners, Finance Committee, and County Treasurer authorized the expansion of the TIP and with that expansion, an alternative investment vehicle is available not only to the county, but allows for participation by other legally separate entities such as special districts and public agencies, for which the county is *ex officio* treasurer. Participation in the pool by districts and agencies is voluntary, with a signed Investment Service Agreement submitted to the county treasurer. The county and districts are able to take advantage of higher yielding investment opportunities by combining purchasing power while maintaining objectives of safety, liquidity, and yield. The Port share of the TIP is 2.99% and the County's entire portfolio summary for the TIP is as follows:



NOTE 6 – LEASES

As of December 31, 2020, the Port had no material non-cancellable contracts where the Port leases property as a lessee. The Port has one major customer that is just over 10 percent of total operating revenues.

The Port, as a lessor, enters into several operating leases with tenants for the use of properties at various locations, including Marine Division and Property Management Division land, facilities, and equipment rentals with minimum annual guarantees, securities, or deposits under lease terms of 1 to 50 years. In addition, some properties are rented on a month-to-month basis. Port procedure is to negotiate all leases at fair market value at the best of our abilities considering market conditions, economic factors, property condition and location, as well as other factors that may impact negotiating lease prices.

The Port currently has 17 non-cancellable lease arrangements ranging in monthly payments between \$1,220 and 16 thousand with either fixed, 2% to 4% rent escalation clauses. Seven of the non-cancellable leases have contract terms ranging from one to four option(s) of 5 to 15-year lease renewal option(s). One lease contains a purchase option at fair market value at the end of the lease expiration.

The Port has calculated the minimum future lease rental income on non-cancellable operating leases through their lease terms and with the optional extensions. On leases with optional extensions the Port included the extension periods if it is a land lease with significant improvements (e.g., building) or the Port has reason to believe the tenant will renew (e.g., long history with the Port).

The Port's minimum future lease rental income on non-cancellable operating lease terms remaining in excess of one year are as follows:

<i>Years Ending December 31</i>						
<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>Thereafter</i>	<i>Total</i>
\$ 736,037	\$ 591,936	\$380,905	\$ 274,435	\$ 262,506	\$ 6,831,988	\$9,077,807

The Port's leased properties involved are in part used by internal Port operations, or in part of a building with land, and/or for land held for sale. It is not reasonably determinable to segregate the value of assets associated with producing minimum rental income from the value of the assets associated with an entire facility.

NOTE 7 – LONG-TERM DEBT AND CHANGES IN LONG-TERM LIABILITIES

A. Long-Term Debt

In accordance with the Port's Comprehensive Scheme of Development Plan and Budget, the Port entered into a tax-exempt bond financing agreement with Cashmere Valley Bank in August of 2018 to fund the Vista Field Phase-One(A) Infrastructure for the construction of a road, utilities, landscape improvements, and a water feature for \$5 million. The interest rate is 2.85 percent until the first rate reset date of June 1, 2023. The bond matures June 1, 2033. The bond's interest rate is 3.45% until June 1, 2028 and thereafter is 1 minus the then current federal marginal corporate income tax rate multiplied by the then current prime rate less 10 basis points.

As of December 31, 2020, the total draws amounted to \$5 million with approximately \$4.6 million principal outstanding. There are no assets pledged as collateral for this debt since the bond constitutes general indebtedness payable from Port tax revenues. The following are terms specified in the debt agreement:

- 1) Default: The Port is obligated to pay interest on the bond until paid in full.
- 2) Termination: The bond only terminates upon full payment of principal and interest.
- 3) Acceleration: There is no acceleration.

Debt service requirements on long-term debt as of December 31, 2020 are as follows:

Year Ending December 31,	Bond		Year Ending December 31,	Bond	
	Principal	Interest		Principal	Interest
2021	\$ 319,586	\$ 129,494	2021	319,586	129,494
2022	328,759	120,321	2022	328,759	120,321
2023	326,775	122,305	2023	326,775	122,305
2024	326,017	123,064	2024	326,017	123,064
2025	337,361	111,719	2025	337,361	111,719
2026 - 2033	\$ 2,984,488	\$ 227,040	2026-2030	1,871,282	374,118
			2031-2033	1,113,206	60,848
Total	\$ 4,622,985	\$ 833,943	Total	\$ 4,622,985	\$ 1,041,869

B. Changes in Long-Term Liabilities

As of December 31, 2020, the following changes occurred in long-term liabilities:

Type	ID No.	Description	Date of Original Issue	Date of Maturity	Beginning Balance January 1	Additions	Deletions	Ending Outstanding Balance December 31	Due Within One Year
GO	259.12	Compensated Absences	N/A	N/A	\$ 340,963	\$ -	\$ 1,156	\$ 339,807	\$ -
GO	263.99	Accrued Benefits	N/A	N/A	172,500	7,500	-	180,000	-
GO	264.30	PERS/Pension Related	Jan-15	N/A	417,220	-	1,416	415,804	-
GO	263.40	OPEB/Pension Related	Jan-13	N/A	813,180	255,604	-	1,068,784	-
GO	251.41	Non-Voted General Obligation Bond for Construction	May-20	Jun-28	-	5,000,000	377,015	4,622,985	319,586
Total Liabilities					\$ 1,743,863	\$5,263,104	\$379,587	\$ 6,627,380	\$319,586

Compensated absences accounts for accrued employee paid time off (PTO), which includes vacation and sick pay. Accrued benefits account for HRA Veba contributions for employees who have at least five years of service. In order to encourage longevity at the Port, employees will receive a lump sum payment based on a multiplier and years of service upon separation into their HRA Veba account. These liabilities are paid through the Port's general budget (operating revenues or taxes levied) each year as employee uses their PTO.

The PERS and OPEB Pension related liabilities are not actual legal liabilities of the Port that require funding. The PERS and OPEB liabilities are accounting entries only required in order to be in compliance with Generally Accepted Accounting Principles.

NOTE 8 – OTHER DISCLOSURES

The Port had several contractual obligations which are discussed in Note 4, *Contingencies and Litigation*.

The Port has several real estate holdings that were originally purchased with the intent to develop, build, or lease. Real estate deemed no longer needed for Port purposes and available for sale in accordance with the Port's Comprehensive Scheme of Development are as follows:

- 3.97 acres at Willows
- 3.2 acres at Cable Greens

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

Legally, the Port does not have a contractual obligation or a policy to maintain and provide its employees with continued medical insurance coverage after termination or retirement. The Public Employees Benefits Board (PEBB) plan document offers a subsidized retirement coverage to its plan participants and the Port can terminate medical insurance with no future obligation or liability to PEBB or its retirees. In order to be in compliance with GASB Statement No. 75, the Port adopted and implemented this statement in 2018.

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

	2020
OPEB Liabilities	\$1,068,784
OPEB Assets	-
Deferred Outflows of Resources	3,822
Deferred Inflows of Resources	-
OPEB Expense	\$262,944

The Port provides to its retirees employer subsidies for postemployment medical insurance benefits (OPEB) provided through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

General Information about the OPEB Plan

Plan Description

The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents as a single employer plan. 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.

Benefits Provided

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 subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of \$183 or 50% of the monthly premiums.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Employees Covered by Benefit Terms

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

Active Employees	16
Inactive Employees or beneficiaries currently receiving benefits	2
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	0
Total	18

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions.

The OPEB relationship between PEBB employers and their employees and retirees is 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.

Total OPEB Liability

The Port's total OPEB liability was measured as of June 30, 2020, and was determined using the alternative measurement method as of that date, which is permitted under GASB Statement No. 75. The data (e.g., age range) is compiled into the Office of State Actuary GASB No. 75 reporting tool for all active and inactive members to determine the total OPEB Liability and OPEB Expense. The Office of the State Actuary report involves calculations that require assumptions about future economic and demographic events.

The alternative measurement was based on the following methods and assumptions:

Methodology	
Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2020
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
Assumptions	
Discount Rate¹	
Beginning of Measurement Year	3.50%
End of Measurement Year	2.21%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates²	Initial rate is about 7%, trends down to around 5% in 2020.
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

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

² Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see OSA's 2018 **PEBB OPEB Actuarial Valuation Report**.

Changes in the Total OPEB Liability

Total OPEB Liability (TOL)	
Service Cost	\$31,101
Interest Cost	\$29,422
Changes in Experience Data and Assumptions	\$202,421
Changes in Benefit Terms	\$0
Benefit Payments	(\$7,340)
Other	\$0
Net Change in Total OPEB Liability	\$255,604
Total OPEB Liability - Beginning	\$813,180
Total OPEB Liability - Ending	\$1,068,784

Sensitivity of the Total OPEB Liability

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate.

The following presents the total OPEB liability of the Port calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current discount rate and health care cost trend rates:

Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	\$1,295,602	\$1,068,784	\$890,086
Healthcare Trend	\$864,154	\$1,068,784	\$1,337,612

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The Port recognized OPEB expense for the years ended December 31, as follows:

OPEB Expense for Fiscal Year Ending June 30, 2020	
Service Cost	\$31,101
Interest Cost	\$29,422
Changes in Experience Data and Assumptions	\$202,421
Changes in Benefit Terms	\$0
Other Changes in Fiduciary Net Position	\$0
Total OPEB Expense	\$262,944

At December 31, 2020 the Port reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Payments subsequent to the measurement date	\$3,822	\$0

Deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31, 2021	\$3,822
-------------------------------	---------

NOTE 10 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2020:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 415,804
Pension assets	\$ -
Deferred outflows of resources	\$ 161,484
Deferred inflows of resources	\$ (152,101)
Pension expense/expenditures	\$22,349

State Sponsored Pension Plans

Substantially all 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 comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

Public Employee's 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.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

Port of Kennewick's actual contributions to the plan amounted to approximately \$60 thousand.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

Port of Kennewick's actual contributions to the plan amounted to approximately \$99 thousand.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The 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 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 his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.

- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

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 7.4 percent 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 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (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

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, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent 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%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	354,439	282,973	220,646
PERS 2/3	826,510	132,831	(438,414)

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, 2020, Port reported a total pension liability for its proportionate share of the net pension liabilities as follows:

Liability (or Asset)	
PERS 1	\$282,973
PERS 2 & 3	\$132,831
TOTAL	\$415,804

At June 30, the Port's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.008181%	0.008015%	-0.000166%
PERS 2/3	0.010566%	0.010386%	-0.000180%

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

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the Port recognized pension expense as follows:

Pension Expense	
PERS 1	\$7,806
PERS 2 & 3	\$14,544
TOTAL	\$22,349

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, 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	PERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-	Differences between expected and actual experience	\$47,552	(\$16,647)
Net difference between projected and actual investment earnings on pension plan investments	-	(1,575)	Net difference between projected and actual investment earnings on pension plan investments	\$0	(6,746)
Changes of assumptions	-	-	Changes of assumptions	\$1,892	(90,735)
Changes in proportion and differences between contributions and proportionate share of contributions			Changes in proportion and differences between contributions and proportionate share of contributions	\$33,297	(\$36,398)
Contributions subsequent to the measurement date	\$29,842		Contributions subsequent to the measurement date	\$48,901	
TOTAL	\$29,842	(\$1,575)	TOTAL	\$131,642	(\$150,525)

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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense if the net amount is under \$1,000. Other amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year	PERS 1	PERS 2/3
	Yearly Amortization	Yearly Amortization
2021	(7,150)	(58,087)
2022	(225)	(16,144)
2023	2,182	(609)
2024	3,617	15,811
2025	-	(2,215)
Thereafter	-	(6,541)
Total Net Deferred	(1,575)	(67,785)

NOTE 11 – PLEDGES OF FUTURE REVENUES

In August of 2009, the Port of Kennewick entered into an interlocal agreement with the City of Kennewick establishing a Local Revitalization Financing Agreement as allowed by the State of Washington. The Port pledges the increased property taxes due to new construction stimulated by the City of Kennewick's bond financing in an amount not to exceed \$14,000 per year for a period of 25 years. The Port reports the revenues and expenses within the non-operations section on the Statement of Revenues, Expenses and Changes in Net Position.

NOTE 12 – PROPERTY TAX

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 established for next year's levy at 100 percent of market value.
October 31	Second of two equal installment payments is due.

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

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general governmental services. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate.

The Port's regular tax levy for 2020 was \$0.28 per \$1,000 on an assessed valuation of \$15.3 billion for a total regular tax levy of just over \$4.3 million.

NOTE 13 – RISK MANAGEMENT AND PAID FAMILY MEDICAL LEAVE ACT

Port of Kennewick is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2020, there are 193 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive and collision, equipment breakdown, and crime protection and liability; including general, automobile and wrongful acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions that is subject to a per-occurrence self-insured retention (SIR) of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which has a self-insured retention of \$25,000. Members are responsible for \$1,000 to \$10,000 deductible for each claim, while the program is responsible for the \$100,000 retention. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of \$100,000 of the self-insured retention, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,147,814.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured for those without encryption.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of pumps and motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of pumps and motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the pool for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ended December 31, 2020, were \$2,651,954. The Port of Kennewick had no material claims in 2020.

Port of Kennewick has chosen to be self-insured for unemployment insurance purposes. The Port had no claims during 2020 and no unemployment claims are outstanding as of December 31, 2020. The Port has sufficient unrestricted cash as disclosed in Note 5, *Deposits and Investments* to pay any future claims if incurred, and reserve policy in place (Resolution 2018-27).

The Port administers a voluntary plan for paid family medical leave benefits for its employees. Voluntary plans are approved by the Employment Security Department and are available for employers who wish to opt out of the State of Washington's Paid Family Medical Leave Program for either family leave benefit, medical leave benefit, or both, and instead administer their own internal plan. Employers with voluntary plans are required to offer benefits that are equal to or exceed the benefits offered by the State's program and must report employee hours, wages, premiums deducted from employee pay, and other information to the Employment Security Department on a quarterly basis. The Port paid \$0 in claims during 2020 and held \$0 of employee premiums at fiscal year-end.

NOTE 14 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the Port is unknown at this time.

Port of Kennewick

MCAG No. 1699

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**

As of June 30,

	2018	2019	2020
Total OPEB liability - beginning	\$886,449	\$ 898,057	\$ 813,180
Service cost	36,525	31,986	31,101
Interest	32,933	35,681	29,422
Changes in benefit terms	0	0	0
Differences between expected and actual experience	0	0	0
Changes of assumptions	(51,687)	(136,279)	202,421
Benefit payments	(6,163)	(16,265)	(7,340)
Other changes	0	0	0
Total OPEB liability - ending	898,057	813,180	1,068,784
 Covered-employee payroll	 1,170,103	 1,223,389	 1,295,883
 Total OPEB liability as a % of covered payroll	 76.75%	 66.47%	 82.48%

Note to Schedule

Changes of benefit terms:

For 2018, amounts presented reflect a \$150 per month in the retirees' share of health insurance premiums.

For 2019, amounts presented reflect a \$168 per month in the retirees' share of health insurance premiums.

For 2020, amounts presented reflect a \$183 per month in the retirees' share of health insurance premiums.

Changes of assumptions: Changes assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are discount rates used in each period:

2018 3.58% to 3.87%

2019 3.87% to 3.50%

2020 3.50% to 2.21%

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the Port will present information for only those years for which information is available.

Port of Kennewick

MCAG No. 1699

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PORT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY**

As of June 30,

PERS 1

Port of Kennewick						
Schedule of Proportionate Share of the Net Pension Liability						
PERS 1						
As of June 30, 2020						
	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.007%	0.008%	0.007%	0.008%	0.008%	0.008%
Employer's proportionate share of the net pension liability	\$ 391,535	\$ 455,094	\$ 338,561	\$ 352,727	\$ 314,588	\$ 282,973
Employer's covered payroll	\$ 857,894	\$ 947,168	\$ 982,936	\$ 1,058,341	\$ 1,156,993	\$ 1,218,811
Employer's proportionate share of the net pension liability as a percentage of covered payroll	45.64%	48.05%	34.44%	33.33%	27.19%	23.22%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%

PERS 2 & 3

Port of Kennewick						
Schedule of Proportionate Share of the Net Pension Liability						
PERS 2 & 3						
As of June 30, 2020						
	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.007%	0.011%	0.009%	0.010%	0.010%	0.010%
Employer's proportionate share of the net pension liability	\$ 345,229	\$ 546,188	\$ 318,857	\$ 172,329	\$ 172,329	\$ 132,831
Employer's covered payroll	\$ 857,894	\$ 947,168	\$ 982,936	\$ 1,058,341	\$ 1,156,993	\$ 1,218,811
Employer's proportionate share of the net pension liability as a percentage of covered payroll	40.24%	57.67%	32.44%	16.28%	14.89%	10.90%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the Port will present information for only those years for which information is available.

Port of Kennewick

MCAG No. 1699

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PORT'S CONTRIBUTIONS**

As of December 31,

PERS 1

Port of Kennewick						
Schedule of Employer Contributions						
PERS 1						
As of December 31, 2020						
	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 39,197	\$ 46,063	\$ 49,899	\$ 55,712	\$ 59,097	\$ 59,874
Contributions in relation to the statutorily or contractually required contributions	\$ (39,197)	\$ (46,063)	\$ (49,899)	\$ (55,712)	\$ (59,097)	\$ (59,874)
Contribution deficiency (excess)	0	0	0	0	0	0
Covered payroll	892,400	965,689	1,018,370	1,100,187	1,194,396	1,248,356
Contributions as a percentage of covered payroll	4.39%	4.77%	4.90%	5.06%	4.95%	4.80%

PERS 2 & 3

Port of Kennewick						
Schedule of Employer Contributions						
PERS 2 & 3						
As of December 31, 2020						
	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 51,950	\$60,162	\$69,853	\$82,516	\$ 90,047	\$ 98,870
Contributions in relation to the statutorily or contractually required contributions	\$ (51,950)	\$ (60,162)	\$ (69,853)	\$ (82,516)	\$ (90,047)	\$ (98,870)
Contribution deficiency (excess)	0	0	0	0	0	0
Covered payroll	892,400	965,689	1,018,370	1,100,187	1,194,396	1,248,356
Contributions as a percentage of covered payroll	5.82%	6.23%	6.86%	7.50%	7.54%	7.92%

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the Port will present information for only those years for which information is available.



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

Board of Commissioners
Port of Kennewick
Kennewick, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port of Kennewick, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Port of Kennewick's basic financial statements, and have issued our report thereon dated February 4, 2022.

Internal Control Over Financial Reporting

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

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

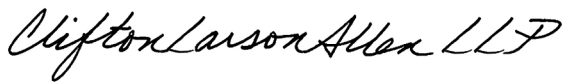
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Port of Kennewick's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Yakima, Washington
February 4, 2022