Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Pangborn Memorial Airport

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

Published January 11, 2021

Report No. 1027253

Office of the Washington State Auditor
Pat McCarthy

January 11, 2021

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on the Pangborn Memorial Airport's financial statements.

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

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.

TABLE OF CONTENTS

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

Pangborn Memorial Airport
January 1, 2019 through December 31, 2019

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Pangborn Memorial Airport, a component unit of the Port of Chelan County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements, and have issued our report thereon dated October 22, 2020.

As discussed in Note 12 to the financial statements, in January 2020, the Port of Chelan County and the Port of Douglas County functionally consolidated all operations and formed the Chelan Douglas Regional Port Authority. The Airport transferred its assets, liabilities and operations to the Chelan Douglas Regional Port Authority on January 1, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport'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 Airport's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport'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 Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

October 22, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pangborn Memorial Airport
January 1, 2019 through December 31, 2019

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Pangborn Memorial Airport, a component unit of the Port of Chelan County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed on page 10.

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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Airport'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 Airport'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 financial position of the Pangborn Memorial Airport, as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 12 to the financial statements, in January 2020, the Port of Chelan County and Port of Douglas County functionally consolidated all operations and formed the Chelan Douglas Regional Port Authority. The Airport transferred its assets, liabilities and operations to the Chelan Douglas Regional Port Authority on January 1, 2020. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 October 22, 2020 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

October 22, 2020

FINANCIAL SECTION

Pangborn Memorial Airport
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019
Statement of Revenues, Expenses and Changes in Net Position – 2019
Statement of Cash Flows – 2019
Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 2 – 2019
Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2019
Schedule of Changes in Total OPEB Liability and Related Ratios – PEBB – Health Care Authority – 2019

Pangborn Memorial Airport's (the Airport) management's discussion and analysis (MD&A) is designed to:

1. Assist the reader in focusing on significant financial issues;
2. Provide an overview of the Airport's financial activity;
3. Identify changes in the Airport's financial position;
4. Provide information on challenges in the next and subsequent years; and
5. Identify individual fund or program issues and concerns.

Since the MD&A is designed to focus on the current year's activities, please read it in conjunction with the Airport's financial statements.

Financial Statements

The Airport's financial statements are designed so that all activities for the Airport are reported as one total for the entire Airport. They are designed to display the financial position and activity of the Airport as a whole. The Airport consists exclusively of enterprise funds. Enterprise funds utilize the accrual basis of accounting, and are reported in the same method as that used in private sector accounting. These statements include:

1. Statement of Net Position. This is similar to a balance sheet in that it reports all financial and capital resources of the Airport. The statement is prepared using the balance sheet format. All assets and liabilities are presented in order of liquidity.

   The focus of the statement of net position is designed to present the net assets available to the Airport. Total net position is reported in three broad categories:

   - Net Investment in Capital Assets. This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other related borrowings that are attributable to the acquisition, construction or improvement of those capital assets.

   - Restricted. This component of net position consists of assets in which creditors, grantors, laws or regulations have placed constraints.

   - Unrestricted. This component consists of all remaining assets.

2. Statement of Revenues, Expenses, and Changes in Net Position. This statement is similar to an income statement and includes operating revenues, such as rental income and other tenant revenue, operating expenses, such as administrative expenses, utilities, maintenance and depreciation, and nonoperating revenue and expenses, which includes grant revenue, passenger facility funds, investment income and interest expense.

3. Statement of Cash Flows. This statement shows net cash provided by, or used for, operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

An Overview of the Airport's Financial Position and Operations

The Airport's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

TABLE 1
STATEMENTS OF NET POSITION

	2019	2018
Current and other assets	$ 731,246	$ 510,574
Restricted assets	741,532	693,224
Net capital assets	42,629,977	42,995,485
Total Assets	$ 44,102,755	$ 44,199,283
Deferred outflows of resources	$ 101,440	$ 103,454
Current liabilities	$ 1,487,637	$ 176,648
Noncurrent liabilities	1,023,829	1,188,457
Total Liabilities	$ 2,511,466	$ 1,365,105
Deferred inflows of resources	$ 178,428	$ 160,380
Net Position		
Net investment in capital assets	$ 42,070,617	$ 42,975,461
Restricted	741,532	693,224
Unrestricted	(1,297,848)	(891,433)
Total Net Position	$ 41,514,301	$ 42,777,252

Total Assets

The Airport's total assets at December 31, 2019 were $44,102,755, a decrease of $96,528 from December 31, 2018. The decrease is due primarily to depreciation of assets. Passenger Facility Charge funds held in account at the end of the year were $741,532, an increase of

Total Assets – continued

$48,308 from December 31, 2018. This is due to 2019 collections being held for Application 13-11-C-00 Terminal Security project expected to be completed in 2020. Funds of $10,818 were expended for Application 16-12-C-00 Master Plan and Commercial Apron projects. An additional $194,535 was expended on initial construction for the Terminal Security Project.

Total Liabilities

The Airport's total liabilities at December 31, 2019 were $2,511,466, an increase of $1,146,361 from December 31, 2018. Accounts payable increased significantly due to an increase in capital projects and associated accrued retainage late in the year. Loans were issued by the Port of Chelan for a hangar purchase and fuel station construction. Noncurrent liabilities decreased by $164,628 due to reduction of Net Pension Liability and Other Post Employment Benefits (OPEB).

Total Net Position

The Airport's financial position declined as net position decreased by $1,262,951.

TABLE 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2019	2018
Revenue		
Operating revenues	$ 2,122,726	$ 2,201,059
Nonoperating revenues	880,590	891,845
Total Revenues	3,003,316	3,092,904
Expenses		
Operating expenses	4,550,329	4,624,144
Nonoperating expenses	1,603	3,049
Total Expenses	4,551,932	4,627,193
Loss before capital grants	(1,548,616)	(1,534,289)
Capital grants	285,665	1,152,730
Change in Net Position	$ (1,262,951)	$ (381,559)

Major Factors Affecting the Statements of Revenues, Expenses and Change in Net Position

Operating revenue decreased 3.6% in 2019, primarily due to decreases in fuel service operations.

Nonoperating revenues reflect contributions made by the owners of the Airport, the Port of Chelan County and the Port of Douglas County, for funds to cover the maintenance and operations deficit, and interest income. Also received are funds through a reimbursable agreement with the Transportation Security Administration for a percentage of the Airport's law enforcement officer expense, the passenger facility ticket fee and the terminal advertising program.

In 2019, capital grants decreased by 75.2%. AIP Grant 40 and WSDOT Grant GCB 3239, in the amounts of $749,882 and $41,660, were awarded in 2019 for an Environmental Assessment, with $132,577 and $7,365 being expended in 2019. AIP Grant 41, in the amount of $158,314, was awarded in 2019 for ARFF Gear and Terminal Capacity, with $32,772 being expended in 2019.

Operating expenses decreased 1.6% in 2019. The decrease was largely due to decreased fuel expenses for fuel service operations.

Economic Factors

Significant economic factors affecting the Airport include:

- Aviation fuel sales were down 22.3% due to decreased jet fuel demand for fighting fires, and decreased aviation gas demand due to fuel tank construction not being completed until November.
- Statewide shut downs due to Covid-19 began in February 2020, with the governor's declaration of emergency. Airport revenues have been significantly impacted by greatly reduced numbers of passengers using services.

Request for Information

This financial report is designed to provide a general overview of the Airport's accountability for all those interested. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Pangborn Memorial Airport
Attn: Monica Lough, Director of Finance
One Campbell Parkway, Suite A
East Wenatchee, WA 98802-9290

Pangborn Memorial Airport
STATEMENT OF NET POSITION
December 31, 2019

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS	
Cash held by Chelan County Treasurer	
General fund	$ 111,815
State pooled investments	79
Bank accounts	75,596
Cash on hand	1,278
Total cash and cash equivalents [Note 2]	188,768
Accounts receivable (net)	215,460
Grants receivable	137,931
Prepaid expenses	49,934
Fuel inventory	101,901
Total current assets	693,994
NONCURRENT ASSETS	
Net Pension Asset	37,252
Restricted assets	
Cash in bank - Passenger facility fund [Note 2]	741,532
Capital assets [Note 3]	
Land and right-of-way	9,964,045
Buildings	7,587,810
Improvements other than buildings	40,606,680
Machinery and equipment	4,082,145
Construction in progress	749,752
Total costs	62,990,432
Less accumulated depreciation	20,360,455
Total capital assets	42,629,977
TOTAL ASSETS	$ 44,102,755
DEFERRED OUTFLOWS OF RESOURCES	
Pension [Note 5]	98,431
Other Post Employment Benefits [Note 6]	3,009
	$ 101,440

See accompanying notes

LIABILITIES, NET POSITION AND DEFERRED INFLOWS

	2019
CURRENT LIABILITIES	
Accounts payable	$ 567,247
Retainage in escrow	51,985
Accrued taxes and benefits	23,575
Accrued vacation payable	48,272
Accrued interest	208
Operating notes payable [Note 8]	786,500
Long-term debt payable within one year [Note 9]	9,850
Total current liabilities	1,487,637
NONCURRENT LIABILITIES	
Deposits	142,849
Net pension liability [Note 5]	272,373
Other Post Employment Benefits [Note 6]	608,607
Long-term debt payable after one year [Note 9]	-
Total noncurrent liabilities	1,023,829
TOTAL LIABILITIES	$ 2,511,466
DEFERRED INFLOWS OF RESOURCES	
Pension [Note 5]	$ 178,428
NET POSITION	
Net investment in capital assets	$ 42,070,617
Restricted	741,532
Unrestricted	(1,297,848)
TOTAL NET POSITION	$ 41,514,301

See accompanying notes

Pangborn Memorial Airport
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

OPERATING REVENUES	
Rent [Note 11]	
Space/concessions	$ 404,678
Parking	396,133
Aviation land	133,996
Non-aviation land	100,905
Fuel service operations	901,619
Landing fees	90,982
Aviation fuel flowage fee	18,054
Security badge income	7,008
Misc. fees, permits and reimbursements	69,351
Total operating revenues	2,122,726
OPERATING EXPENSES	
Depreciation	1,897,548
Salaries	668,991
Fuel service operations	
Fuel	555,506
Wages	168,560
Payroll taxes and benefits	62,855
Small tools and supplies	16,142
Merchant fees	12,406
Other expenses	71,296
Employee benefits [Note 5]	39,153
Insurance [Note 7]	111,312
Computer supplies and maintenance	56,870
Utilities	121,980
Payroll taxes	85,522
Land lease expense [Note 9]	31,044
Vehicle expense	35,979
Other professional services	220,757
Repairs	
Equipment	23,379
Buildings	52,720
Vehicles	32,994
Runways and aprons	62,621
Legal expense	38,905
State audit	17,075
Conventions, meetings and travel	16,219
Terminal building expense	20,250
Office expenses and telephone	25,455

See accompanying notes

OPERATING EXPENSES – continued	
Advertising and promotion	12,213
Janitor supplies	13,200
Security expense	6,135
Subscriptions and memberships	5,326
Bad debt expense	21,965
Other expenses	45,951
Total operating expenses	4,550,329
OPERATING LOSS	(2,427,603)
NONOPERATING REVENUES (EXPENSES)	
Operating grants [Note 10]	547,671
Passenger facility income	293,006
Gain on disposal of assets	27,048
Advertising income	11,639
Interest income	1,226
Interest expense	(1,603)
Total nonoperating revenues (expenses)	878,987
LOSS BEFORE CAPITAL GRANTS	(1,548,616)
Capital grants [Note 10]	285,665
CHANGE IN NET POSITION	(1,262,951)
NET POSITION - BEGINNING OF YEAR	42,777,252
NET POSITION - END OF YEAR	$ 41,514,301

See accompanying notes

Pangborn Memorial Airport
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 2,029,050
Payments to suppliers	(2,007,432)
Payments to employees	(832,214)
Net cash used by operating activities	(810,596)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants	550,301
Nonoperating revenues	302,703
Advances on operating bonds	794,155
Payments on operating note payable	(7,655)
Net cash provided by noncapital financing activities	1,639,504
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital passenger facility fund	(48,308)
Capital grants received	213,375
Proceeds from disposal of capital assets	28,787
Acquisition of capital assets	(992,940)
Payments on long-term debt payable	(9,851)
Interest paid	(1,812)
Net cash used by capital and related financing activities	(810,749)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	1,226
NET INCREASE IN CASH	19,385
CASH - BEGINNING OF YEAR	169,383
CASH - END OF YEAR	$ 188,768

See accompanying notes

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	$ (2,427,603)
Noncash expense	
Depreciation	1,897,548
Pension	(171,844)
(Increase) decrease in operating assets	
Accounts receivable	(130,211)
Prepaid expenses	7,924
Fuel inventory	(6,805)
Increase (decrease) in operating liabilities	
Accounts payable	(29,738)
Accrued taxes and benefits	8,261
Accrued vacation payable	5,337
Deposits	36,535
Net cash used by operating activities	$ (810,596)

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Capital assets included in accounts payable	$ 497,524

See accompanying notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pangborn Memorial Airport (the Airport) 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 Airport is a municipal airport situated in Douglas County, Washington, serving the air transportation needs of North Central Washington. The Airport operates as a local government agency under the statutes of the State of Washington.

The Airport obtains operating resources through land and space rentals, concession agreements, user fees and an interlocal agreement between the Port of Chelan County and Port of Douglas County. The current agreement was approved in 2003 (the Port of Chelan County acts as manager of the aviation use property and the Port of Douglas County acts as manager of designated non-aviation property, and collectively the two Ports serve as the Governing Board). In conformity with GAAP, the Airport is reported as a discretely present component unit of the Port of Chelan County.

In June 2019, the Port of Chelan County and Port of Douglas County entered into an interlocal agreement to functionally consolidate as of January 1, 2020 as the Chelan Douglas Regional Port Authority. With the interlocal agreement, the Joint Operating Agreement dissolved at December 31, 2019 and the airport became a division of the Chelan Douglas Regional Port Authority.

B. Basis of accounting

The accounting records of the Airport are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Airport uses the Budgeting Accounting and Reporting System (BARS) for GAAP Port Districts in the State of Washington.

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statement of net position. Their reported fund 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

B. Basis of accounting – continued

losses) in net position. The Airport discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Airport uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The Airport distinguishes between operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with Airport principal ongoing operations. The principal operating revenues of the Airport are charges to tenants for land, parking, space and hangar leases. The Airport also recognizes as operating revenue concessions, landing fees and aviation fuel flowage fees. Operating expenses for the Airport include salaries, repairs and maintenance and administration. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, liabilities and net position

1. Cash and cash equivalents

   It is the Airport's policy to invest all temporary cash surpluses. At December 31, 2019, the treasurer was holding $79 in short-term residual investments of surplus cash.

   For the purpose of the statement of cash flows, the Airport considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Accounts receivable

   Accounts receivable are unsecured and stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding, after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to accounts receivable. Per review of outstanding accounts, an allowance for doubtful accounts of $20,875 was accrued at December 31, 2019.

C. Assets, liabilities and net position - continued

3. Inventory

Fuel inventory is valued at cost using the FIFO (first in, first out) method, which approximates the market value.

4. Restricted assets

The passenger facility fund is the balance of collected passenger facility charges (PFC) at year end. There are two types of projects eligible for PFC funding: (1) a project that meets Federal Aviation Administration (FAA) requirements and (2) sponsor share - PFC funds can be collected to recover the sponsor share of prior Federal Airport Improvement Program (AIP) projects. Expenditure of all PFC funds are approved and identified in the Airport capital budget.

PFC Application 13-11-C-00-EAT was approved in April of 2013 with all funds being collected as of December 31, 2016. An amendment for additional Terminal Security Project funds was approved in August 2019. Collection authority was extended to January 1, 2020 with all funds collected as of September 30, 2019. Funds of $6,704 were utilized in 2014 to reimburse the sponsor's share of the terminal security wall project. An Aircraft Rescue & Fire Fighting truck, and auxiliary equipment project, was completed with the truck placed in service by the end of 2016. The total amount for the truck and equipment was $730,302. Funds of $238,314 were expended through 2019 on the Terminal Security project.

PFC Application 16-12-C-00-EAT in the amount of $589,500 was approved April 27, 2016 and reached collection authority December 31, 2018. Amendment of PFC Application 13-11-C-00-EAT extended collection authority to April 1, 2023. Unexpended, collected funds were transferred to PFC Application 13-11-C-00-EAT. The application will cover the sponsor's share, currently 10 percent, of AIP grants. Funds from this PFC application will be used as follows: 1) Update Airport Master Plan, $75,000; 2) Purchase SRE Equipment, $60,000; 3) Reconstruct Commercial Apron/Glycol Recovery System, $224,500; and, 4) Taxiway A Rehabilitation, $230,000. Through the end of 2019, expended funds were 1) Master Plan, $73,759; 2) SRE Equipment, $115,510; 3) Commercial apron/Glycol Recovery System, $21,380; and Taxiway A Rehabilitation, $21,695.

5. Capital assets

See Note 3.

C. Assets, liabilities and net position - continued

6. Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Airport records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to a maximum of 30 days, is payable upon resignation, retirement, or death.

Sick leave may accumulate up to 60 days, and is not payable upon resignation or termination of employment, other than retirement. If an employee retires under the Public Employees Retirement System, at the time of termination of employment, the Airport shall contribute an amount equal to 25% of the value of accrued unused sick leave to a Voluntary Employee's Beneficiary Association (VEBA) account. In addition, for those employees that start the calendar year with the maximum hours of sick leave accrued, and during the year use less sick leave than the amount accrued, will also receive a contribution of 25% of the excess accrual to a VEBA account.

7. Deferred compensation

The Airport employees are eligible to participate in the Washington State employees deferred compensation plan. The annual contribution limits are the lesser of $19,000 or 100% of the employee's gross salary.

8. Long-term debt

See Note 8.

9. Leases

As part of its normal operations, the Airport leases land and buildings to tenants. The Airport's objective is that lease terms be for a length of time that will assist in ensuring economic stability and a fair return on the value of the property being leased. Lease terms currently range from month-to-month to fifty years. All leases are accounted for as operating leases.

C. Assets, liabilities and net position - continued

10. Advertising expenses

The Airport expenses advertising costs as incurred. No direct response advertising is conducted; therefore, no advertising costs have been capitalized. Advertising expense for 2019 was $12,213.

11. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Pensions

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Airport's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

A. 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.

All capital assets are valued at historical cost.

The Airport 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 Airport has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

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 5 to 40 years for buildings and land improvements, and 3 to 20 years for equipment.

B. Capital assets activity for the year ended December 31, 2019 as follows:

	Beginning Balance 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
Capital assets not being depreciated:				
Land and right-of-way	$ 9,964,045	$ -	$ -	$ 9,964,045
Construction in progress	234,646	1,547,128	1,032,022	749,752
Total capital assets, not being depreciated	$ 10,198,691	$ 1,547,128	$ 1,032,022	$ 10,713,797
Capital assets, being depreciated:				
Buildings	$ 6,597,911	1,011,963	22,064	$ 7,587,810
Improvements other than buildings	40,606,680	-	-	40,606,680
Machinery and equipment	4,075,435	6,710	-	4,082,145
Total capital assets being depreciated	51,280,026	1,018,673	22,064	52,276,635
Less accumulated depreciation for:				
Buildings	3,346,199	172,435	20,325	3,498,309
Improvements other than buildings	12,777,573	1,516,320	-	14,293,893
Machinery and equipment	2,359,460	208,793	-	2,568,253
Total accumulated depreciation	18,483,232	1,897,548	20,325	20,360,455
Total capital assets being depreciated, net	$ 32,796,794	$ (878,875)	$ 1,739	$ 31,916,180

C. Construction commitments

Grant projects open as of December 31, 2019, consist of the following:

AIP Grant 40 – A grant in the amount of $749,882 was awarded in 2019 for an Environmental Assessment. Funds of $132,577 were expended in 2019.

WSDOT CB 3239 – A grant in the amount of $41,660 was awarded in 2019 for 50% of sponsor share for AIP Grant 40 Environmental Assessment. Funds of $7,365 were expended in 2019.

AIP Grant 41 – A grant in the amount of $158,314 was awarded in 2019 for ARFF Gear and Terminal Capacity project. Funds of $69,849 were expended in 2019.

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Airport is not aware of any issues, whether or not they would materially affect these financial statements, involving non-compliance with Washington laws or with BARS.

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts - All Plans

Pension liabilities	$	(272,373)
Pension assets		37,252
Deferred outflows of resources		98,431
Deferred inflows of resources		(178,428)
Pension expense/expenditures		9,171

State Sponsored Pension Plans

Substantially all the Airport'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 Employees' Retirement System (PERS)

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

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

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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January - June 2019		
PERS Plan I	7.52%	6.00%
PERS Plan I UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**
July - December 2019		
PERS Plan I	7.92%	6.00%
PERS Plan I UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**

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

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

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates 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 2019 were as follows:

PERS Plan 2/3 **Actual Contribution Rates:**	Employer 2/3	Employee 2
January - June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan I UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.83%**	**7.41%**
July - December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan I UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.86%**	**7.90%**

The Airport's actual PERS plan contributions were $36,310 PERS Plan I and $56,608 to PERS Plan 2/3 for the year ended December 31, 2019.

Law Enforcement Officers and Fire Fighters Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, fire fighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service - 2.0% of FAS
- 10-19 years of service - 1.5% of FAS
- 5-9 years of service - 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 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

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other 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. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% as of July 1, 2019.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

Actual Contribution Rates:	Employer	Employee
January - June 2019		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%
July - December 2019		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities	8.59%	8.59%
Administrative Fee	0.18%	
Total	8.77%	8.59%

The Airport's actual contributions to the plan were $3,009 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2019, the state contributed $72,959,897 to LEOFF Plan 2. The amount recognized by the Airport as its proportionate share of this amount is $1,942.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study and the 2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, 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:** 7.40%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. 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 modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.

- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

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 included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these 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 and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2019, 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 Airport's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the Airport'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	$ 257,250	$ 205,419	$ 160,449
PERS 2/3	513,514	66,954	(299,477)
LEOFF 2	(6,927)	(37,252)	(62,005)

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, 2019, the Airport reported a total pension liability of $272,373 and asset of $37,252 for its proportionate share of the net pension liabilities and assets as follows:

	Liability
PERS Plan 1	$ 205,419
PERS Plans 2/3	66,954

	Asset
LEOFF 2	$ 37,252

At June 30, the Airport's proportionate share of the collective net pension liabilities and assets were as follows:

	Proportionate Share 06/30/18	Proportionate Share 06/30/19	Change in Proportionate Share
PERS Plan 1	0.005678%	0.005342%	-0.000336%
PERS Plans 2/3	0.007324%	0.006893%	-0.000431%
LEOFF 2	0.001710%	0.001608%	-0.000102%

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 except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the Airport recognized pension expense as follows:

PERS Plan 1	$	(6,211)
PERS Plans 2/3		11,740
LEOFF 2		3,642

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(13,724)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	17,078	-
Total	$ 17,078	$ (13,724)

PERS Plans 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 19,183	$ (14,395)
Net difference between projected and actual investment earnings on pension plan investments	-	(97,458)
Changes of assumptions	1,714	(28,092)
Changes in proportion and differences between contributions and proportionate share of contributions	4,814	(12,260)
Contributions subsequent to the measurement date	28,416	-
Total	$ 54,127	$ (152,205)

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,681	$ (670)
Net difference between projected and actual investment earnings on pension plan investments	-	(7,638)
Changes of assumptions	61	(4,192)
Changes in proportion and differences between contributions and proportionate share of contributions	22,972	-
Contributions subsequent to the measurement date	1,511	-
Total	$ 27,225	$ (12,500)

Deferred outflows of resources related to pensions resulting from the Airport 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 as follows:

Year ended December 31:	PERS Plans 2/3	LEOFF Plan 2
2020	$ (30,443)	$ 963
2021	(51,174)	(869)
2022	(23,338)	1,232
2023	(13,027)	2,042
2024	(6,865)	2,654
Thereafter	(1,645)	7,193

NOTE 6 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year ending December 31, 2019:

Aggregate OPEB Amounts - All Plans	
OPEB liabilities	$ 608,607
OPEB assets	-
Deferred outflows of resources	3,009
Deferred inflows of resources	-
OPEB expense/expenditures	(85,053)

At December 31, 2019 the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	0
Active employees	13
Total	15

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

OPEB Plan Description

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

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

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.

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

Subsidies

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

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

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

PEBB has also historically provided subsidized basic life insurance (Plan A) coverage to retirees. This was an explicit life insurance subsidy set up by the PEBB Board and approved as part of the budget process. However, beginning January 1, 2012, the PEBB Board eliminated the explicit life insurance subsidy on a permanent basis.

Funding Policy

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

Actuarial Methods and Assumptions

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

Health Plan Assumptions:

- 2/3 of members select a Uniform Medical Plan (UMP plan) and 1/3 select a Group Health plan.
- UMP pre- and post-Medicare costs and premiums are equal to the Uniform Medical Plan.
- Group Health pre-Medicare costs and premiums are a 50/50 blend of GH Classic and GH Value.
- The Group Health post-Medicare costs and premiums are equal to GH Medicare.

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

Retirement, disablement, termination, and mortality rates were based on the 2018 AVR. For simplicity, the Office of the State Actuary assumed that all employees are retirement eligible at age 55, relied on the retirement rates for members with less than 30 years of service, and assumed a 100% retirement rate at the age of 70.

Each primary member was assumed to be a 50/50 male/female split, and that eligible spouses are the same age as the primary member. Age-based primary members were selected for the tool based on the overall distribution of State employees and retirees that participate in PEBB.

Other assumptions include:

Discount Rate*	
Beginning of Measurement Year	3.87%
End of Measurement Year	3.50%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates**	Initial rate is approximately 7%, trends down to about 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%

The following presents the total OPEB liability of the Airport calculated using a discount rate of 3.5%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% point higher than the current rate. It also shows the total OPEB liability based on a healthcare trend rate of 7%, and 1% lower and 1% higher than the current rate.

Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	$738,749	**$608,607**	$506,420
Healthcare Trend	$490,905	**$608,607**	$764,092

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

Changes in the Total OPEB Liability

The following table shows the components of the Airport's annual OPEB expense for the year, the benefit payments made, and changes in the Airport's total OPEB liability as of June 30, 2019. The net OPEB liability of $608,607 is included as a noncurrent liability in the Statement of Net Position.

Total OPEB Liability at 07/01/2018	$ 693,660
Service Cost	28,704
Interest	27,814
Changes in Experience Data and Assumptions	(134,198)
Changes in Benefit Terms	-
Benefit Payments	(7,373)
Other	-
Total OPEB Liability at 06/30/2019	$ 608,607

The Airport used the alternative measurement method, which does not calculate deferred outflows and inflows for anything other than payments subsequent to the measurement date. Payments subsequent to the measurement date of 6/30/19 were $3,009.

Funded Status and Funding Progress

In order to fund the OPEB plan, the Airport would have to establish an irrevocable trust, which means that the Airport would no longer have control of the money put into the trust. Even if the Airport left the PEBB program, the Airport would not be able to get the money out of the trust. As of December 31, 2019, the plan was 0% funded.

NOTE 7 - RISK MANAGEMENT

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

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- $1,000,000 self-insured retention on liability loss - the member is responsible for the first $1,000 of the amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.

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

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

$1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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

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

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

In addition to the Enduris coverage, the Airport maintains insurance with the following companies:

Insurer	Coverage	Deductible
ACE Property and Casualty Insurance Company	Airport Owners and Operators General Liability	NIL
Colony Insurance Company	WA Storage Tank Pollution Liability	$10,000 each claim

The Airport does not maintain Washington State unemployment insurance, where it has elected to become self-insured. The Airport expects to owe $5,390 in premiums on unemployment losses in 2020.

NOTE 8 - LIABILITIES

The Airport's short term liabilities consist of accounts payable, accrued taxes and benefits, retainage in escrow, accrued vacation payable, accrued interest and current maturities of long-term debt.

In 2019, the Port of Chelan issued two loans to the Airport for current projects. Both loans were forgiven January 1, 2020 when the airport became a division of the Chelan Douglas Regional Port Authority.

	Beginning balance 1/1/19	Additions	Reductions	Ending balance 12/31/19
Note A.	$ -	$ 687,211	$ -	$ 687,211
Note B.	-	106,944	7,655	99,289
Totals	$ -	$ 794,155	$ 7,655	$ 786,500

NOTE 9 - LONG-TERM DEBT AND LEASES

Long-term debt

A. A note payable to the East Wenatchee Water District for a Utility Local Improvement District (ULID) is payable annually at $9,682, plus interest at 5.25%, and matures in August of 2020.

B. A note payable to the East Wenatchee Water District for a ULID is payable annually at $168, plus interest at 5.25%, and matures in August of 2020.

	Beginning balance 1/1/19	Additions	Reductions	Ending balance 12/31/19	Amounts due within one year
Note A.	$ 19,365	$ -	$ 9,683	$ 9,682	$ 9,682
Note B.	336	-	168	168	168
Totals	$ 19,701	$ -	$ 9,851	$ 9,850	$ 9,850

Annual debt service payments to maturity are as follows:

	Principal	Interest
2020	$ 9,850	$ 517
Total	$ 9,850	$ 517

Operating leases

Beginning April 25, 1997, the Airport leases from the Port of Douglas County 11.11 acres with improvements, referred to as Airside Lot 3, for 50 years, plus five, five year options. This has been subleased to Executive Flight, Inc. The monthly lease payment was $3,104. Land lease expense was $31,044 for 2019. With the purchase of Executive Flight by the Port of Chelan County October 31, 2019 and subsequent relocation of all Port and Airport offices to the property, the operating lease was cancelled.

Capital leases

The Airport has no capital leases as of December 31, 2019.

NOTE 10 - JOINT OPERATING AGREEMENT

The Airport is jointly owned by the Port of Chelan County and the Port of Douglas County. A new joint operating agreement became effective January 1, 2004. The agreement states that the Port of Chelan County holds an undivided 61% interest and the Port of Douglas County holds an undivided 39% interest in the Airport. The ownership percentages have not been updated since January 1, 2004.

The Port of Douglas County manages the Port of Douglas County industrial park (Airport has rights to the airside lots) and CWICC building as defined in existing agreements between the Port of Douglas County and the Airport. The Port of Chelan County manages the aviation related activities and projects, and all other uses of the Airport property.

During 2013, the Port of Chelan County and Port of Douglas County signed an MOU to define their relationship regarding the operation and funding of the Airport. For 2018, maintenance and operations contributions from the Port of Chelan County and Port of Douglas County totaled $383,725 and $164,454, respectively. Capital contributions for 2018 were $60,945 from the Port of Chelan County and $26,119 from the Port of Douglas County. In 2017, maintenance and operations contributions from the Port of Chelan County and Port of Douglas County totaled $330,000 and $150,124, respectively. In addition, the Port of Chelan County contributed $103,705 for capital projects, with the Port of Douglas County contributing $0 for capital projects. The MOU expired as of December 31, 2017 with the Ports reverting back to the 2003 JOA as of January 1, 2018.

In June 2019, the Port of Chelan County and Port of Douglas County entered into an Interlocal Agreement to functionally consolidate as of January 1, 2020, forming the Chelan Douglas Regional Port Authority. With the formation of the Regional Port Authority, the Joint Operating Agreement ended December 31, 2019, and the airport became a division of the Regional Port Authority.

NOTE 11 - OTHER DISCLOSURES

Long-term operating leases

The Airport has historically received lease income from land, hangar space, airlines and car rental agencies.

The major leases are summarized as follows:

Land and terminal space

The Port of Douglas County has a 50 year lease on the industrial property. Lease payments are due as the property is developed. This lease ended December 31, 2019 with the interlocal agreement between the Port of Chelan and Port of Douglas County, effective as of January 1, 2020.

Alaska Airlines/Horizon Air is the carrier leasing terminal space and providing airline services to the Airport.

Executive Flight, Inc. signed a 50 year land lease in 1997 with an option for five successive five year periods. This lease was cancelled October 31, 2019 when the Port of Chelan purchased the building for the Chelan Douglas Regional Port Authority offices.

Car rental leases

The AVIS/Budget Rent-A-Car, Hertz Rent-A-Car and Enterprise Rent-A-Car annual leases include office space in the terminal and rent for parking spaces.

Other leases

The Airport has a number of other land leases, terminal leases and commission income. The primary ones consist of: the U. S. Forest Service, C & M Properties, T-hangar space, Executive Flight and TSA office space.

The Airport entered into a contract with Republic Parking on May 1, 2011 to manage the terminal parking lot. The minimum annual guaranteed revenue is $138,000, with a 70% return of gross receipts up to $225,000 and 80% of gross receipts in excess of $225,000.

Minimum future rents, commissions, landing fees, etc. on non-cancelable leases for the five years succeeding December 31, 2019 are as follows:

2020	$ 330,199
2021	329,492
2022	333,274
2023	543,600
2024	546,401

NOTE 12 - SUBSEQUENT EVENTS

On June 11, 2019, the Port of Chelan County and Port of Douglas County signed an Interlocal Cooperation Agreement functionally consolidating finances, management, and operations into one governing body, the Chelan Douglas Regional Port Authority, effective as of January 1, 2020. This agreement replaces the previous Joint Operating Agreement which defined the funding and management of Pangborn Memorial Airport. As of January 1, 2020, Pangborn Memorial Airport no longer operates as an individual entity, and has transferred all assets, liabilities and operations to the Chelan Douglas Regional Port Authority. The Port Commissioners of both individual districts have joined together to create the Board of Directors. Financially, the consolidation will allow the organization to think and act regionally. Joining efforts will also allow resources, both internally and externally, to be utilized more fully in the best capacity.

Pangborn Memorial Airport
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For the Measurement Years through June 30, 2019

PERS Plan 1	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability	0.005315%	0.005592%	0.005616%	0.005678%	0.005342%
Employer's proportionate share of the net pension liability	$ 278,022	$ 300,317	$ 266,484	$ 253,581	$ 205,419
Employer's covered employee payroll	$ 668,891	$ 664,873	$ 708,246	$ 754,515	$ 749,174
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	41.56%	45.17%	37.63%	33.61%	27.42%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%

PERS Plans 2/3	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability	0.006869%	0.007175%	0.007224%	0.007324%	0.006893%
Employer's proportionate share of the net pension liability	$ 245,426	$ 361,256	$ 250,999	$ 125,051	$ 66,954
Employer's covered employee payroll	$ 668,891	$ 664,873	$ 708,246	$ 754,515	$ 749,174
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	36.69%	54.33%	35.44%	16.57%	8.94%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%

LEOFF Plan 2*	2015	2016	2017	2018	2019
Employer's proportion of the net pension asset	N/A	0.005120%	0.001831%	0.001710%	0.001608%
Employer's proportionate share of the net pension asset		$ 29,779	$ 25,408	$ 34,717	$ 37,252
Employer's covered employee payroll		$ 47,038	$ 57,268	$ 56,468	$ 56,472
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	0.00%	63.31%	44.37%	61.48%	65.97%
Plan fiduciary net position as a percentage of the total pension asset		106.04%	113.36%	118.50%	119.43%

* LEOFF 2 began July 01, 2016, retroactive to February 01, 2013

Pangborn Memorial Airport
SCHEDULES OF EMPLOYER CONTRIBUTIONS
For the Measurement Years through December 31, 2019

PERS Plan 1	2015	2016	2017	2018	2019
Statutorily required contributions	$ 27,612	$ 35,006	$ 36,452	$ 38,268	$ 36,310
Contributions in relation to the statutorily required contributions	(27,612)	(35,006)	(36,452)	(38,268)	(36,310)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$690,303	$733,874	$743,866	$755,903	$733,674
Contributions as a percentage of covered employer payroll	4.00%	4.77%	4.90%	5.06%	4.95%

PERS Plans 2/3	2015	2016	2017	2018	2019
Statutorily required contributions	$ 41,241	$ 45,720	$ 51,041	$ 56,691	$ 56,608
Contributions in relation to the statutorily required contributions	(41,241)	(45,720)	(51,041)	(56,691)	(56,608)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$690,303	$733,874	$743,866	$755,903	$733,674
Contributions as a percentage of covered employer payroll	5.97%	6.23%	6.86%	7.50%	7.72%

LEOFF Plan 2 *	2015	2016	2017	2018	2019
Statutorily required contributions	N/A	$ 7,833	$ 2,965	$ 2,981	$ 3,009
Contributions in relation to the statutorily required contributions		(7,833)	(2,965)	(2,981)	(3,009)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employer payroll		$ 51,214	$ 57,641	$ 56,776	$ 57,865
Contributions as a percentage of covered employer payroll	0.00%	15.29%	5.14%	5.25%	5.20%

* LEOFF 2 began July 01, 2016, retroactive to February 01, 2013

Pangborn Memorial Airport

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

For the measurement Years through June 30, 2019

Last 10 Fiscal Years*

PEBB - Health Care Authority	2018	2019
Total OPEB liability - beginning	$683,008	$693,660
Service cost	34,432	28,704
Interest	25,587	27,814
Changes in benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	(43,867)	(134,198)
Benefit payments	(5,500)	(7,373)
Other changes		
Total OPEB liability - ending	693,660	608,607
Covered-employee payroll	810,983	806,510
Total OPEB liability as a % of covered payroll	85.53%	75.46%

Notes to Schedule:

* Until a full 10-year trend is compiled, only information for those years available is presented.

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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