



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Port of Shelton

For the period January 1, 2017 through December 31, 2017

Published December 10, 2018

Report No. 1022756





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

December 10, 2018

Board of Commissioners
Port of Shelton
Shelton, Washington

Report on Financial Statements

Please find attached our report on the Port of Shelton's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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**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**

**Port of Shelton
January 1, 2017 through December 31, 2017**

Board of Commissioners
Port of Shelton
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Shelton, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated December 4, 2018.

We issued an unmodified opinion on the fair presentation of the Port's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Port using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

December 4, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Shelton January 1, 2017 through December 31, 2017

Board of Commissioners
Port of Shelton
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Shelton, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Port's 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 the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Port of Shelton has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Port of Shelton, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Port used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port of Shelton, as of December 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

December 4, 2018

FINANCIAL SECTION

Port of Shelton January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to Financial Statement – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

Port of Shelton
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	3,986,763
388 / 588	Prior Period Adjustments, Net	-

Revenues

310	Taxes	706,791
320	Licenses and Permits	-
330	Intergovernmental Revenues	200,920
340	Charges for Goods and Services	1,901,137
350	Fines and Penalties	-
360	Miscellaneous Revenues	47,154
Total Revenues:		2,856,002

Expenditures

540	Transportation	1,507,408
Total Expenditures:		1,507,408
Excess (Deficiency) Revenues over Expenditures:		1,348,594

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	300,000
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	305,605
381, 395, 398	Other Resources	244,134
Total Other Increases in Fund Resources:		849,739

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,166,071
591-593, 599	Debt Service	306,628
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	240,019
Total Other Decreases in Fund Resources:		1,712,718

Increase (Decrease) in Cash and Investments: 485,615

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	4,472,378
Total Ending Cash and Investments		4,472,378

The accompanying notes are an integral part of this statement.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Port of Shelton (Port) was incorporated in 1948 and operates under the laws of the State of Washington applicable to a Port district.

Reporting Entity

The Port is located in Mason County, Washington and its territory covers less than the entire county. The Port is a special purpose local government that provides industrial and commercial property rentals, a marina and airport facilities to the general public and is supported by user charges and taxes from a property tax levy. The Port may acquire and improve land for sale or lease for industrial or commercial purposes. The Port is governed by an elected three-member board.

Basis of Accounting and Reporting

The Port reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statement.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statement as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. The Port has one fund. The following fund type is used:

PROPRIETARY FUND TYPE

Enterprise Fund

This fund accounts for operations that provide goods or services to the general public and are supported primarily through user charges.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

B. Basis of Accounting and Measurement Focus

The Port's financial statement is prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Budgets

Annual budgets are adopted on the same basis of accounting as used for financial reporting.

D. Cash and Investments - See Note 2, Deposits and Investments.

E. Capital Assets

Capital assets, including major repairs, are assets with an initial individual cost of \$3,000 or more and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave, eligible sick leave and associated payroll taxes. Payments are recognized as expenditures when paid.

Vacation pay, which accrues on the employee's anniversary date, may be accumulated up to eighty (80) hours and is payable upon separation, retirement or death.

The Port allows up to 720 hours accumulation of sick leave. At the time of termination of employment (either voluntarily or involuntarily) any unused sick leave is forfeited and employees are not entitled to any pay in lieu of unused sick leave. Upon retirement, an employee shall receive pay for 25% of their accumulated sick leave provided that the employee has a minimum of five (5) years of continuous service with the Port and meet all the requirements to be eligible for retirement under the Public Employees' Retirement System.

The total compensated absences balance was \$32,142 at December 31, 2017. See Schedule 09, *Schedule of Liabilities*.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

G. Long-Term Debt - See Note 4, Debt Service Requirements.

H. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Commissioners. When expenditures that meet restrictions are incurred, the Port intends to use reserved resources first before using unreserved amounts. Reservations of Beginning and Ending Cash and Investments consist of \$0, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS:

It is the Port's policy to invest all temporary cash surpluses. The interest on these investments is recorded in the Port's General Fund. The carrying amount of the Port's cash deposits with financial institutions was \$618,699 held at Heritage Bank, a \$332 deposit in transit to Heritage Bank and \$6,137 temporarily held at the Mason County Treasurer's Office, for a total carrying value of \$625,168 at December 31, 2017. The total carrying amount of the investments was \$3,847,210 and the total carrying amount of cash and investments was \$4,472,378 at December 31, 2017, respectively.

All deposits and certificates of deposits were covered by the Federal Depository Insurance Corporation (FDIC) or by the Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered or held by the Port or its agent in the government's name. See Note 1D, Cash and Investments.

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

<u>Type of Investment</u>	<u>Port's Own Investments Total</u>
Heritage Bank - Public Now Account	\$ 1,575,525
Local Government Investment Pool (LGIP)	<u>2,271,685</u>
Total	\$ <u>3,847,210</u>

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

Within the investment accounts, the Port internally maintains segregated subaccounts to reflect internally restricted accounts.

As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State Banks or savings and loan institutions.

On May 15, 2002, the Port Commission passed Resolution 02-04, appointing one of its members to be the Port Treasurer. The Port Treasurer maintains the accounts of the Port at Heritage Bank in Shelton, Washington, a certified Public Depositary Institution and the LGIP in Olympia, Washington, a State of Washington qualified external investment pool, managed and operated by the Washington State Treasurer. The Port invests its surplus cash according to a Policy adopted by the Commission in Resolution 02-05 dated May 15, 2002, that uses three criteria to determine what investments are appropriate. The three criteria, in order of importance are; safety of principal, liquidity of the investment and overall return on investment. Investment earnings are reported in each investment's respective total.

NOTE 3 - PROPERTY TAX:

The Mason County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed to the Port at the start of the month following collection by the Mason County Treasurer.

Property tax revenues are recognized when cash is received by Mason County on behalf of the Port. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general Port purposes.

The Port's regular levy for 2017 was \$0.3579877 per \$1,000 on a total assessed valuation of \$1,984,857,555 for a total regular levy of \$710,555.

NOTE 4 - DEBT SERVICE REQUIREMENTS:

The Port issues general obligation bonds to finance the acquisition and construction of capital assets. The Port is also liable for subordinated interagency Washington State Community Economic Revitalization Board (CERB) loans and Drinking Water State Revolving Fund (DWSRF) loans. These loans are payable from the revenues of the Port. See Note 1G, Long-Term Debt.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 4 - DEBT SERVICE REQUIREMENTS, CONTINUED:

The accompanying Schedule 09, *Schedule of Liabilities* provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for the year ended December 31, 2017.

The annual debt service requirements to maturity for general obligation bonds and subordinated interagency loans at December 31, 2017 are as follows:

Year ending December 31	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 237,559	\$ 64,026	\$ 301,585
2019	254,766	59,908	314,674
2020	260,762	49,144	309,906
2021	255,405	38,754	294,159
2022	270,605	28,703	299,308
2023 - 2027	555,141	39,723	594,864
2028 - 2032	76,633	10,869	87,502
2033 - 2037	82,556	5,046	87,602
2038	<u>17,261</u>	<u>259</u>	<u>17,520</u>
Totals	\$ <u>2,010,688</u>	\$ <u>296,432</u>	\$ <u>2,307,120</u>

Subordinated Interagency Loans Issued in 2017

The Port executed a \$300,000 CERB Committed Partnership Grant/Loan on August 28, 2017 for a public facilities project consisting of a \$300,000 loan, \$300,000 grant and a \$150,000 Port match for a roof and infrastructure for a tenant at Johns Prairie. The loan term is twenty (20) years, amortizing over eighteen (18) years, maturing January 31, 2038, with an interest rate of 1.50%. The first payment date is January 31, 2019 and the final payment date is January 31, 2038. See Schedule 09, *Schedule of Liabilities*.

NOTE 5 - PENSION PLANS:

State Sponsored Pension Plans

Substantially all Port full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS), a statewide retirement system administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit retirement plans.

The State Legislatures establishes and amends laws pertaining to the creation and administration of all public retirement systems.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 5 - PENSION PLANS, CONTINUED:

State Sponsored Pension Plans, Continued

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

At June 30, 2017 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$24,200	0.004023%	\$190,894
PERS 2/3	\$31,607	0.005175%	\$179,807
Total	\$55,807		\$370,701

NOTE 6 - OTHER DISCLOSURES:

Grants

During 2015, the Federal Aviation Administration (FAA) notified the Port they were issuing a grant award letter in 2016 for the design, engineering and construction of a Sanderson Field airport run-up apron, to include eligible expenditures incurred in 2015. The Washington State Department of Transportation, Aviation Division (WSDOT) issued a grant award letter in 2015 for the design of a Sanderson Field airport run-up apron, to include eligible expenditures incurred from July 1, 2015 onwards. The FAA grant is for 90%, the WSDOT grant is for 5%, and the Port match is 5% of eligible expenditures, respectively. The FAA grant #014 was issued for \$412,179 and was subsequently increased by \$2,278 in 2017 to \$414,457. In 2016, WSDOT issued grant #SHE-01-16 for \$19,571 for the construction of a Sanderson Field airport run-up apron. In 2017, the Port incurred \$12,823 of eligible expenditures on the FAA grant and incurred \$157,129 of eligible expenditures on the WSDOT grants, respectively. The FAA grant #014 and WSDOT grant #SHE-01-16 were fully expended in 2017. The WSDOT grant #SHE-01-15 was fully expended out in 2016. See Note 6, Subsequent Events.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Grants, Continued

The Port was a recipient of a Washington State Parks and Recreation Commission grant, which was a federal flow-through grant from Federal Fish and Wildlife under the Clean Vessel Act for a boat sewage disposal facility. The Port completed the capital portion of the grant in 2008 and is eligible to participate in the maintenance reimbursement portion of the grant for the life of the asset. The Port incurred \$2,843 of eligible reimbursable expenditures in 2017. See Schedule 16, *Schedule of Expenditures of Federal Awards*.

In 2016, CERB notified the Port that they had been approved for a Committed Partnership Grant/Loan for a public facilities project consisting of a \$160,000 loan, \$160,000 grant and an \$80,000 Port match for a tenant at Johns Prairie consisting of infrastructure improvements. The Port executed a contract with CERB on May 18, 2017 and the Port has four (4) years to complete the work. See Note 6, Subsequent Events.

In 2017, CERB notified the Port that they had been approved for a Committed Partnership Grant/Loan for a public facilities project consisting of a \$300,000 loan, \$300,000 grant and a \$150,000 Port match for a roof and infrastructure for a tenant at Johns Prairie. The Port executed a contract with CERB in 2017. By December 31, 2017, the Port has completed the loan portion of the project and is working on the grant portion of the project. The Port incurred \$157,129 of eligible reimbursable expenditures in 2017. The Port has four (4) years to complete the work. See Note 6, Subsequent Events. See Schedule 09, *Schedule of Liabilities* and Schedule 16, *Schedule of Expenditures of Federal Awards*.

Grant expenditures include amounts owing to the Port for eligible expenditures incurred in 2017.

See Note 6, Contingencies and Litigation.

Note Receivable

The Port held an unsecured note receivable with an original balance of \$200,768, with monthly payments of \$3,346 and 0.00% interest, maturing June 30, 2017 for extended rent from a tenant. The note was paid in full in 2017.

Contingencies and Litigation

The Port participates in a number of federal and state assisted programs. The grants the Port receives under these programs are subject to audit by grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Port management believes that such disallowances, if any, will be immaterial.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued

The Port acquired certain assets with funding provided by federal and state financial assistance programs. Depending upon the terms of the agreements involved, the funding governmental unit could retain an equity interest in these assets resulting in the assets reverting back to the agency if the assets are not used for their intended purposes. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired and has included such assets within the applicable account.

The Port has received multiple recoverable grants from the FAA Airport Improvement Program for multiple years. The grants have included the design, planning, engineering and construction of various airport assets. The FAA grant assurances are as follows: "The terms, conditions and assurances of their grant agreements shall remain in full force and effect throughout the useful life of the facilities developed or equipment acquired for an airport development or noise compatibility program project, or throughout the useful life of the project items installed within a facility under a noise compatibility program project, but in any event not to exceed twenty (20) years from the date of acceptance of a grant offer of Federal funds for the project. However, there shall be no limit on the duration of the assurances regarding Exclusive Rights and Airport Revenue so long as the airport is used as an airport. There shall be no limit on the duration of the terms, conditions, and assurances with respect to real property acquired with federal funds. Furthermore, the duration of the Civil Rights assurance shall be specified in the assurances".

The Port has received FAA aviation grant funds through 2017. As such, the current period of recoverability extends through 2037. The FAA grants were included in Intergovernmental Revenues grant funds for each year received. The Port has received a material amount of grants from the FAA over the years. A complete list of recoverable grants is maintained by the Port. See Schedule 16, *Schedule of Expenditures of Federal Awards* for each year for the amounts of FAA grants incurred.

The Port has received multiple recoverable grants from the WSDOT Aviation Airport Aid Program over the years. The grants primarily have been structured to be a 5% match to airport associated grants from the FAA's Airport Improvement Program. The WSDOT grants require that the airport remain open for the expected life of twenty (20) years; otherwise 100% of the grant funding must be returned with thirty (30) days of closure, sale, or discontinuance of service. The Port has received WSDOT aviation grant funds through 2017. As such, the current period of recoverability extends through 2037. The WSDOT grants were included in Intergovernmental Revenues grant funds for each year received. The majority of the grants from WSDOT have been 5% of the FAA grants. A complete list of recoverable grants is maintained by the Port. See Schedule 15, *Schedule of Financial Assistance* for each year for the amounts of WSDOT grants incurred.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued.

In 2007, the Port received a \$150,000 recoverable grant for the design, construction and maintenance of a floating restroom for Oakland Bay Marina from Fish and Wildlife Service, Department of the Interior, a pass through grant via Washington State Parks and Recreation Commission. This grant is contingent on the floating restroom remaining in operation, over water, for twenty (20) years. The Port continues to receive annually a 75% reimbursement for the maintenance of the floating restroom from this grant and the total reimbursements to-date have exceeded the original \$150,000 award. The floating restroom portion of this grant and the annual maintenance portion of this grant is included in Intergovernmental Revenues grant funds for each year received. See Schedule 16, *Schedule of Expenditures of Federal Awards* for each year for the amounts of the grants incurred.

In 2017, the Port received a \$300,000 loan and a \$300,000 recoverable grant from CERB for a Committed Partnership Grant/Loan for a public facilities project for a tenant at Johns Prairie. The CERB grant states that in the event that the Port fails to perform the work or otherwise carry out its duties under this contract in accordance with state laws, federal laws, and/or the provisions of this contract, the Board reserves the right to recapture funds in an amount to compensate the Board for the noncompliance in addition to any other remedies available at law or in equity.

Repayment by the Port of funds under this recapture provision shall occur within the time period specified by the Board. In the alternative, the Board may recapture such funds from payments due under this contract, if any.

The Port shall retain the books and records pertaining to this grant for a period of six (6) years following the date of final payment.

If any litigation, claim or audit is started before the expiration of the six (6) year period, the records shall be retained until all litigation, claims, or audit findings involving the records have been finally resolved.

The Port received the \$300,000 loan portion of the Grant/Loan in 2017 from CERB. The Port will receive the \$300,000 grant portion in 2018 from CERB. The Port will report the \$300,000 grant in Intergovernmental Revenues grant funds for 2018 when received from CERB. See Schedule 09, *Schedule of Liabilities* for the \$300,000 loan received in 2017 and Schedule 15, *Schedule of State Financial Assistance* for 2018.

The Port has received various recoverable grants from United States Department of Agriculture (USDA) and other agencies over the years. These grants are included in Intergovernmental Revenues grant funds for each year received. See Schedule 15, *Schedule of Financial Assistance* and Schedule 16, *Schedule of Expenditures of Federal Awards* for the listings of grants incurred. The Port's management considers any recoverability from these grants to be immaterial to the Port's operations.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued

The Port received a recoverable grant via the receipt of Sanderson Field Airport (SF) and its associated land when it had been decommissioned after World War II. Various usage requirements run with the airport. Any sale of any portion of SF would first have to obtain approval by the federal government and then all sale proceeds remitted back to the federal government. The Port continues to invest in SF. FAA and WSDOT continue to provide grants for a portion of the SF improvements. The period of recoverability is for the lifetime of SF.

See Note 6, Grants and Note 6, Subsequent Events.

Risk Management

The Port maintains insurance against most normal hazards for commercial automobile, property loss and general liability. In the opinion of management, the Port's insurance policies are adequate to pay all known pending claims.

The Port 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. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 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 Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Risk Management, Continued

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 Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its 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.

The Port received \$244,134 in insurance recoveries from Enduris in 2017. See Note 6, Subsequent Events.

Stewardship, Compliance and Accountability

The Port is in compliance with all finance-related legal and contractual provisions.

Significant Commitments or Obligations

Other Post-Employment Benefits (OPEB)

The Port has a commitment to pay for post-employment benefits for employees that belong to the Public Employees' Benefits Board (PEBB). These benefits include medical, dental, vision, long-term disability and life insurance. No retirees received benefits during the year and \$0 was paid out for those benefits during the year.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Significant Commitments or Obligations, Continued

Construction Commitments

The Port has active construction projects as of December 31, 2017. The projects include:

<u>Project</u>	<u>Spent To-Date</u>	<u>Remaining Commitment</u>
Oakland Bay Marina		
OBM north dock repair *	\$ 65,435	\$ 4,146
OBM engineering/permitting	126,016	47,767
OBM south dock finger floats	1,063	46,558
OBM property acquisition	<u>40</u>	<u>9,960</u>
Total Oakland Bay Marina	<u>192,554</u>	<u>108,431</u>
Sanderson Field		
SF water system telemetry replacement	938	20,375
SF land acquisition - runway 5	1,778	479
SF property transactions	5,652	3,992
SF buildings demolition	<u>7,331</u>	<u>200,000</u>
Total Sanderson Field	<u>15,699</u>	<u>224,846</u>
Johns Prairie		
JP fire system control room replacement	19,196	978
JP building #1 roof	63,649	2,921
JP loading docks **	130,200	150,000
JP building #2 re-roof *	397,879	20,563
JP septic installation **	3,294	104,582
JP building walls **	<u>751</u>	<u>306,292</u>
Total Johns Prairie	<u>614,969</u>	<u>585,336</u>
Total Construction Commitments	\$ <u>823,222</u>	\$ <u>918,613</u>

* Partially reimbursed by Enduris

** Partially reimbursed by CERB Loan/Grant

The OBM north dock repair and the JP building #2 re-roof are partially reimbursed by the Port's risk pool, Enduris. The JP loading docks, septic installation and building walls are partially covered by a CERB loan and grant. The remaining construction commitments will be funded from Port funds. See Note 6, Subsequent Events.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Significant Commitments or Obligations, Continued

Pollution Remediation

On April 23, 2014, the Port received a written notification dated April 17, 2014 from the Department of Ecology (DOE) that one of the Port's properties in Johns Prairie was subject to a clean-up process resulting from a former Port tenant. On August 27, 2014, the Port entered into a Voluntary Clean-up Program (VCP) with DOE for this site. The Port had the site tested for potential contaminants in 2014 and 2015. The Port is working with DOE and has provided the results of the tests to DOE. The Port is in the process of properly disposing of materials in a settling pond. The Port is in the process of requesting a No Further Action (NFA) letter on the site. DOE has asked for an additional investigation of this site prior to issuing a NFA letter. The Port engaged CDM Smith, Inc. (CDM Smith), an environmental firm, in December, 2017, to assist in providing the additional information being requested by DOE. The Port anticipates that the additional work will be completed in 2018. The Port incurred \$1,550, \$14,414, \$0 and \$1,183 of clean-up costs for this site at December 31, 2014, 2015, 2016 and 2017, respectively. The Port estimates that the additional clean-up costs will be approximately \$70,000 for this site in 2018.

The Port has identified two sites that will require pollution remediation in 2018. The Port continues to monitor various Port sites with prior or existing environmental concerns including sites with restrictive covenants.

See Note 6, Subsequent Events.

Subsequent Events

The Port has evaluated events through May 30, 2018, which is the date the financial statements were available to be issued.

The Port entered into a VCP with DOE in 2014 on a parcel in Johns Prairie. As a part of that process, DOE requested additional information on that site in 2017. In 2018, CDM Smith, the Port's environmental firm for this site prepared a Work Plan for this site and submitted it to DOE. Upon DOE's approval of the Work Plan, CDM Smith will conduct the proposed field investigation in the summer of 2018 and provide any additional items requested to DOE. Upon completion of the additional field work, the Port anticipates that DOE will issue a NFA letter on the site. See Note 6, Pollution Remediation.

In accordance with pollution remediation guidelines, the Port is working on various pollution remediation projects. In 2018, the Port is properly disposing of various chemicals left by a former tenant and is properly disposing of asbestos, lead paint and possible mercury in light bulbs at the former Sanderson Field building demolition site. See Note 6, Pollution Remediation.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2017

NOTE 6 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events, Continued

In January, 2018, authorization was given by emergency resolution to replace pilings and repair the north dock after severe storm damage. The Port has applied to Enduris for insurance coverage for the repair expenditures and has received 70% of the requested reimbursement to-date.

The Port has various active construction projects at December 31, 2017 that are expected to be completed in 2018. See Note 6, Grants and Note 6, Construction Commitments for a listing of remaining commitment amounts of approximately \$918,613 in 2018.

In 2017, the Port received notification that they will receive reimbursements from their risk pool, Enduris, for 100% of their storm damage on the OBM North Dock and an undetermined amount of coverage on the OBM South Dock. The Port continues to work with Enduris for the remainder of the eligible reimbursements in 2018. See Note 6, Risk Management.

In 2018, the Port continues to perform the eligible project work associated with a CERB Committed Partnership Grant/Loan for a public facilities project consisting of a \$160,000 loan, \$160,000 grant and \$80,000 Port match. The Port anticipates completing the project and submitting for reimbursement for 100% of the Grant/Loan in 2018. See Note 6, Grants.

In 2018, the Port continues to perform the work associated with a CERB Committed Partnership Grant/Loan for a public facilities project for the grant portion of a \$300,000 loan, \$300,000 grant and a \$150,000 Port match.

In 2018, the Port is continuing to work with the FAA and WSDOT on upcoming airport improvement projects including engineering, pavement overlay and taxiway lighting in anticipation of new FAA and WSDOT grants being issued. The Port anticipates that those grants may include a portion of eligible expenditures in 2017 and 2018 incurred prior to the grants being awarded in 2018. The Port has engaged an engineering firm to assist the Port in the upcoming airport improvement projects. See Note 6, Grants.

The Port is holding a series of Community Forums in 2018 to gather input on the future of the public Oakland Bay Marina.

On May 17, 2018, the Port was awarded a Committed Partnership Grant/Loan package in the amount of \$2,000,000 with a Port match of \$500,000, for a total project cost of \$2,500,000 through CERB to construct a 30,000 square foot building for an existing tenant.

**Port of Shelton
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Tax Exempt Serial Bonds Series A for Buildings and Infrastructure, ISSUED 09/15/2003	3/1/2021	475,000	-	105,000	370,000
251.11	General Government Deferred Serial Bonds Series C for Buildings and Infrastructure, ISSUED 09/15/2003	3/1/2023	350,000	-	-	350,000
251.11	Tax Exempt Serial Bonds for Buildings and Infrastructure, ISSUED 08/15/2005	3/1/2025	640,000	-	60,000	580,000
263.85	DWSRF/Replace AC Waterline, ISSUED 09/14/2004	10/1/2024	57,340	-	7,167	50,173
263.85	DWSRF/Replace AC Waterline, ISSUED 09/14/2004	10/1/2024	358,684	-	44,836	313,848
263.85	CERB/Building - North Star, ISSUED 1996	7/1/2020	62,222	-	15,555	46,667
263.85	CERB/JP Roof & Infrastructure, ISSUED 08/28/2017	1/31/2038	-	300,000	-	300,000
Total General Obligation Debt/Liabilities:			1,943,246	300,000	232,558	2,010,688
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		39,131	-	6,989	32,142
264.30	Net Pension Liabilities		561,355	-	190,654	370,701
Total Revenue and Other (non G.O.) Debt/Liabilities:			600,486	-	197,643	402,843
Total Liabilities:			2,543,732	300,000	430,201	2,413,531

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.

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