Office of the Washington State Auditor

Pat McCarthy

Financial Statements Audit Report

Port of Shelton

Mason County

For the period January 1, 2013 through December 31, 2014

Published December 28, 2017

Report No. 1020381

Office of the Washington State Auditor
Pat McCarthy

December 28, 2017

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,

Pat McCarthy

State Auditor

Olympia, WA

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Port of Shelton
Mason County
January 1, 2013 through December 31, 2014

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, Mason County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated December 13, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Port's internal control over financial reporting (internal control) 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.

Pat McCarthy

State Auditor

Olympia, WA

December 13, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Shelton
Mason County
January 1, 2013 through December 31, 2014

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, Mason County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

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 opinions on these financial statements based on our audits. We conducted our audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Shelton, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 December 13, 2017 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

Pat McCarthy

State Auditor

Olympia, WA

December 13, 2017

FINANCIAL SECTION

Port of Shelton
Mason County
January 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

PORT OF SHELTON
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2014 and 2013

Introduction

This discussion and analysis of the Port of Shelton's financial performance provides an overview of the Port's financial activities for the years ended December 31, 2014 and 2013, respectively. It is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements and notes to the financial statements.

Discussion of the Basic Financial Statements

Financial Highlights

The Port's overall financial position has improved as of December 31, 2014 and 2013, respectively. Total assets of the Port exceeded its total liabilities by $16.4 million as of December 31, 2014 (reported as *total net position*). This represented an increase of $0.5 million from the Port's total net position of $15.9 million as of December 31, 2013.

- Of the $16.4 million and $15.9 million in total net position as of December 31, 2014 and 2013, respectively, $3.0 million in 2014 and $2.0 million in 2013 are "unrestricted net position". Unrestricted net position represents the amount available to be used to meet the Port's ongoing obligations to citizens and creditors. $13.4 million and $13.9 million in 2014 and 2013, respectively, were invested in capital assets, net of related debt. Capital assets, net of related debt is calculated by taking the total net capital assets, less all capital related debt that is attributable to the acquisition, construction or improvement of those assets, including the general obligation bonds and loans payable. This amount was $15.8 million, less related general obligation bonds and loans payable of $2.4 million in 2014 and $16.6 million, less related general obligation bonds and loans payable of $2.7 million in 2013.

Overview of the Financial Statements

The Port's basic financial statements include two components: 1) financial statements, and 2) notes to the financial statements. The Port is not required to reflect both a government-wide perspective financial report and a fund perspective financial report since the Port maintains a single enterprise fund, which uses the same measurement focus (economic resources) and accounting framework (accrual) as would be reflected in the government-wide financial statements.

The following is a brief discussion of the financial statements found on pages 12 - 15.

- *Statement of Net Position* - reflects the Port's financial position at year-end. Financial position is represented by the difference between assets owned and deferred outflows of resources and liabilities owed and deferred inflows of resources at a specific point in time. The difference between the two is reflected as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

Discussion of the Basic Financial Statements, Continued

Overview of the Financial Statements, Continued

- *Statement of Revenues, Expenses and Changes in Fund Net Position* - reflects the change in the Port's financial position (net position) during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and unpaid liabilities owed to vendors). This statement presents net income or loss from operations as well as nonoperating revenues and expenses, capital contributions and extraordinary items.

- *Statement of Cash Flows* - reflects the net increases or decreases in cash from four activities: 1) *Operating activities*, with a reconciliation of cash flows from operating activities to net income or loss from operations; 2) *Non-capital financing activities;* 3) *Capital and related activities;* 4) *Investing activities.*

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 - 52 of this report.

Financial Analysis

The Port's total financial position has improved by $0.5 million and $0.4 million at December 31, 2014 and 2013, respectively. The Port's total assets exceeded liabilities by $16.4 million and $15.9 million at December 31, 2014 and 2013, respectively.

The largest portion of the Port's net position (81.8 percent as of December 31, 2014 as compared to 87.5 percent as of December 31, 2013) reflects its investment in capital assets (e.g., land, construction in progress, buildings, machinery, equipment, other improvements and intangible assets) less any related debt used to acquire those assets. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Comparative Financial Data

Net Position
(in thousands of dollars)

	2014	2013	2012
ASSETS			
Current assets	$ 3,548	$ 2,418	$ 2,625
Capital assets	15,775	16,552	15,742
Other noncurrent assets	78	87	241
Total assets	19,401	19,057	18,608
LIABILITIES			
Long-term liabilities outstanding	2,404	2,571	2,745
Other liabilities	627	622	645
Total liabilities	3,031	3,193	3,390
NET POSITION			
Net investment in capital assets	13,383	13,886	12,857
Unrestricted	2,987	1,978	2,361
Total net position	$ 16,370	$ 15,864	$ 15,218

Condensed Comparative Financial Data, Continued

Change in Net Position
(in thousands of dollars)

	2014	2013	2012
OPERATING REVENUES			
Total operating revenues	$ 1,761	$ 1,598	$ 1,538
NONOPERATING REVENUES			
Total nonoperating revenues	1,352	749	1,346
Total revenues	3,113	2,347	2,884
OPERATING EXPENSES			
Total operating expenses	2,564	2,382	2,454
NONOPERATING EXPENSES			
Total nonoperating expenses	119	138	110
Total expenses	2,683	2,520	2,564
Income (loss) before contributions	430	(173)	320
Capital contributions	76	819	78
Change in net position	506	646	398
Net position as of January 1	15,864	15,218	14,802
Change in accounting principle	--	--	18
Net position as of December 31	$ 16,370	$ 15,864	$ 15,218

Overall Analysis of Financial Position and Result of Operations

For the year ended December 31, 2014:

The Port of Shelton (Port) advertised and held a public hearing in order to update the comprehensive plan. Updates were completed in 2014.

The Port Commission signed a Memorandum of Understanding with Shelton Skookum Rotary Club Foundation and Mason County agreeing to assist in the development of a self-sustaining business model for a future event center for the community, which takes the place of the fairgrounds located on Port property.

The Port Commission authorized an increase in the salary for the Executive Director.

The Port authorized a bid for approximately $17,000 for removal of asbestos, lead paint and sheet rock from a building located at 410 Business Park Loop. The work was completed and the materials were properly removed and disposed of in 2014. See Note 17.

The Port renewed a lease with a current tenant for 3 more years. The Port Commission signed four five-year leases for land at John’s Prairie with new tenants.

The Port Commission formed a resolution for Local Government Investment Pool funding.

The Port Commission authorized a resolution for two unpaid holidays of faith and conscience.

The Port authorized a bid for various fencing work around Sanderson Field Airport Operations and Industrial Areas in the amount of $46,074, including two change orders, completed in 2014.

During 2014, the Port added security cameras around various locations at the airport and proximity cards for new gates for tenants entering and exiting the airport operations area.

In order to obtain Shelton Harbor Restoration Grant Funding, the Port partnered with Squaxin Island, Puget Sound Salmon Enhancement Group, Mason Conservation, Simpson Lumber and Simpson Timber Companies. The Port agreed to 30% design drawings.

Department of Natural Resources fire crews set up base camp on Port property due to the various fires located in and around the Shelton vicinity.

The Port successfully completed a three-year financial and accountability audit plus a single audit for their grant projects exceeding $500,000 with the Washington State Auditor’s Office.

The Port successfully completed a four-year leasehold excise tax audit with the Washington Department of Revenue.

Port maintenance crews installed new ramps on the North and South docks at the marina.

Overall Analysis of Financial Position and Result of Operations, Continued

For the year ended December 31, 2014, continued:

The Port sponsored the Snowball Express, a national charity for military families through American Airlines who fly orphaned children to a party in Texas each year for Christmas. The Port purchased the wreaths for the plane from a Port tenant. This is the fourth year in a row of support for this event.

All Port buildings are occupied with the exception of one building requiring some additional improvements.

A tenant applied for a permit with Mason County for an aquaculture permit within a boathouse. The tenant was denied the permit by the Mason County Hearings Examiner. Under the tenant's appeal to the Shoreline Hearings Board, the Mason County Prosecutor's Office approved the permit without Port or Hearings Examiner knowledge. See Note 19.

The Port entered into a voluntary clean-up program through the Washington Department of Ecology (DOE) on August 27, 2014. This property involved a former tenant at the industrial site. The initial testing started in 2014. See Notes 17 and 19.

For the year ended December 31, 2013:

2013 activities resulted in a net increase in the Port's net position of $0.6 million. The Port's net cash provided by operating activities was $286,482 for 2013 in comparison to $56,758 for 2012. The Statement of Cash Flows provides additional information.

The Port renewed a tenant lease for another 5 years at the Johns Prairie location.

The Port finalized and adopted the Airport Master Plan, which was a project that was started in 2007. The Airport Layout Plan was signed by the Federal Aviation Administration (FAA).

The Port set up a Marina Advisory Committee, which was tasked as an advisory committee to staff to help prioritize needs in a ranked order at the marina. The Committee advised on a new rate structure, funding sources for the marina and long-term goals.

The Port finalized the Johns Prairie wholesale water connection in 2013 and located the source of the unaccountable water at Johns Prairie.

The Port finalized the waterline construction at Johns Prairie and the Port will transfer a portion of this waterline to the City of Shelton (City) in 2014.

The Port received some citizen complaints of increased use of helicopters at Sanderson Field. The Port helped to report these concerns to the military installation responsible for those operations.

The Port Commission provided comments to Mason County regarding the Port's concerns for the updates to the Shoreline Master Plan.

Overall Analysis of Financial Position and Result of Operations, Continued

For the year ended December 31, 2013, continued:

The Port implemented improvements in its financial processing procedures.

The Port Commission met with the Mason County Commission to discuss the fairground future.

During 2013, the Port saw a large increase in the interest in obtaining boathouses for shellfish aquaculture within the boathouses. The draft shoreline plan for the City that is waiting for approval at DOE also includes the boathouse shellfish aquaculture.

The Port was granted a Section 10 permit through Army Corps of Engineers in order to replace the public dock, 8 piles and 6 finger floats at the marina. The Port awarded the bid to the lowest bidder on the project for $235,000.

The Port went out for bid on the Sanderson Field Apron. The award was made to the lowest bidder for $223,768.

The Port Commission declared Sanderson Field timber as surplus. See Note 18.
The Port Commission voted to sponsor the 2013 Mason Area Fair and Rodeo with a total amount of $5,000, which will advertise the Port's mission statement.

During 2013, the Port had some derelict buildings removed and dirt excavated and cleaned up for an overall better aesthetic appearance at the Johns Prairie industrial site.

The Port Commission amended the Commission Meetings Agenda asking for public comment two times during the meetings on any topic of interest to the public.

The Federal Aviation Administration (FAA) awarded the Port $600,000 for Sanderson Field aviation improvements. The Washington Department of Transportation (WADOT) awarded the Port a $45,671 matching grant for aviation improvements.

The Port solicited bids for the runway slurry seal project and awarded the bid to the only bidder for $601,102, which was less than the Port's engineer's estimate.

The Port Commission adopted Resolution 13-04 allowing them to lease property for less than fair market value under certain conditions.

The Port sponsored the Snowball Express, a national charity for military families through American Airlines who fly orphaned children to a party in Texas each year for Christmas. The Port purchased the wreaths for the plane from a Port tenant. This is the third year in a row of support for this event. The Port's mission statement is included with all sponsorship materials.

Capital Asset and Long-Term Debt Activity

Capital Assets

The Port's investment in capital assets as of December 31, 2014 and 2013 was $15.8 million and $16.6 million, respectively (net of accumulated depreciation of $13.1 million and $13.5 million, respectively). This investment in capital assets includes land, construction in progress, buildings, machinery, equipment, other improvements and intangible assets.

The Port's capital assets decreased by $0.8 million and increased by $0.9 million during the years ended December 31, 2014 and 2013, respectively. The Port's remaining capital commitments were approximately $32,000 and $50,000 at December 31, 2014 and 2013, respectively. The decrease in capital assets for 2014 pertains to the review of the Port's historical assets resulting in a write off of approximately $1.6 million of assets accumulated depreciation of $1.3 million for a net loss of $0.4 million. The adjustment was a result of a review from a fixed asset review team established by the Port to review the Port's extensive asset list.

Additional information on the Port's capital assets can be found in Note 4 to the financial statements.

Capital Assets
(in thousands of dollars)

	2014	2013	2012
Land	$ 2,803	$ 2,783	$ 2,695
Construction in progress	42	1,339	448
Buildings	12,617	12,226	12,211
Improvements other than buildings	12,323	12,490	11,895
Machinery and equipment	726	835	815
Intangible assets	396	396	316
Total capital assets before accumulated depreciation	28,907	30,069	28,380
Less accumulated depreciation	(13,132)	(13,517)	(12,638)
Total capital assets, net	$ 15,775	$ 16,552	$ 15,742

Long-Term Debt Activity

At December 31, 2014 and 2013, the Port had outstanding general obligation bond debt of $1.8 million and $1.9 million, respectively. The Port had other long-term debt outstanding of $0.6 million and $0.7 million at December 31, 2014 and 2013, respectively. The Port's long-term debt decreased by $0.2 million in 2014 and 2013, respectively.

Long-Term Debt Activity, Continued

The Port had no revenue bonds outstanding at any time during the years ended December 31, 2014 and 2013, respectively.

Additional information on the Port's long-term debt activity can be found in Note 11 to the financial statements.

Other Potentially Significant Matters

All known facts, decisions and conditions that are expected to have a significant effect on the Port's financial position, have been addressed in these financial statements.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Port of Shelton, Deputy Director, 21 West Sanderson Way, Shelton, Washington 98584, or by phone at (360) 426-1151.

PORT OF SHELTON
COMPARATIVE STATEMENT OF NET POSITION
December 31, 2014 and 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 361,684	$ 143,542
Investments	3,044,144	1,808,244
Taxes receivable	43,339	48,988
Accounts receivable, net	3,360	6,665
Notes receivable, net	39,945	37,787
Other receivables	--	20,622
Due from other governments	944	298,461
Prepaid expenses	54,933	53,338
Total current assets	3,548,349	2,417,647
NONCURRENT ASSETS		
Capital assets not being depreciated		
Land	2,802,928	2,782,587
Construction in progress	41,630	1,339,094
Capital assets being depreciated		
Property, plant and equipment	25,665,964	25,551,044
Intangible assets	396,370	396,370
Less accumulated depreciation	(13,132,386)	(13,517,121)
	15,774,506	16,551,974
Other noncurrent assets, net	77,902	87,241
Total noncurrent assets	15,852,408	16,639,215
Total assets	19,400,757	19,056,862

The accompanying notes are an integral part of these financial statements.

LIABILITIES

	2014	2013
CURRENT LIABILITIES		
Accounts payable	60,427	37,235
Accrued wages and compensated absences	44,886	44,514
Accrued employee benefits and taxes	10,623	10,687
Accrued taxes	52,117	44,447
Accrued interest payable	31,477	33,910
Accrued environmental expenses	22,366	--
Contracts and retainage payable	12,757	65,835
Current portion of long-term obligations	212,558	221,709
Customer prepayments	14,787	14,635
Customer deposits	164,883	148,731
Total current liabilities	626,881	621,703
NONCURRENT LIABILITIES		
General obligation bonds, net	1,620,000	1,765,000
Compensated absences	17,896	15,810
Other post-employment benefits	220,199	177,251
Other noncurrent liabilities	545,805	613,363
Total noncurrent liabilities	2,403,900	2,571,424
Total liabilities	3,030,781	3,193,127
NET POSITION		
Net investment in capital assets	13,383,386	13,886,067
Unrestricted	2,986,590	1,977,668
TOTAL NET POSITION	$ 16,369,976	$ 15,863,735

The accompanying notes are an integral part of these financial statements.

PORT OF SHELTON
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the years ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Airport operations	$ 1,103,373	$ 984,492
Marina operations	280,362	213,075
Property lease and rental operations - JP	347,053	334,182
Closed runway operations	30,100	66,547
Total operating revenues	1,760,888	1,598,296
OPERATING EXPENSES		
General operations	227,549	238,658
Maintenance	307,514	251,125
General and administrative	1,100,661	999,230
Depreciation	878,015	893,192
Total operating expenses	2,513,739	2,382,205
Operating loss	(752,851)	(783,909)
NONOPERATING REVENUES (EXPENSES)		
Investment income	14,322	10,255
Taxes levied for general purposes	705,268	691,238
Miscellaneous taxes	8,822	11,045
Operating grants	3,646	9,291
Gain (loss) on disposition of assets	558,780	(10,330)
Interest expense	(95,279)	(101,657)
Election expense	--	(22,336)
Environmental expense	(23,916)	--
Other nonoperating revenues (expenses)	10,879	23,682
Total nonoperating revenues (expenses)	1,182,522	611,188
Income (loss) before contributions	429,671	(172,721)
Capital contributions	76,570	818,729
Increase in net position	506,241	646,008
Net position as of January 1	15,863,735	15,217,727
Net position as of December 31	$ 16,369,976	$ 15,863,735

The accompanying notes are an integral part of these financial statements.

PORT OF SHELTON
COMPARATIVE STATEMENT OF CASH FLOWS
For the years ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	$ 1,879,225	$ 1,648,066
Cash payments to suppliers for goods and services	(1,018,245)	(781,719)
Cash payments to employees and on their behalf	(618,977)	(579,865)
Net cash provided by operating activities	242,003	286,482
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	710,917	697,578
Other tax receipts	8,822	11,045
Other receipts (payments)	(6,161)	(10,593)
Net cash provided by noncapital financing activities	713,578	698,030
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	357,605	572,958
Proceeds from sale of assets	944,481	--
Purchase and construction of capital assets	(498,526)	(1,711,860)
Principal paid on capital debt	(221,709)	(221,165)
Interest paid on capital debt	(97,712)	(105,168)
Net cash provided (used) by capital and related financing activities	484,139	(1,465,235)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,235,900)	535,943
Interest received	14,322	10,255
Net cash provided (used) by investing activities	(1,221,578)	546,198
Net increase in cash and cash equivalents	218,142	65,475
Cash and cash equivalents as of January 1	143,542	78,067
Cash and cash equivalents as of December 31	$ 361,684	$ 143,542

The accompanying notes are an integral part of these financial statements.

PORT OF SHELTON
COMPARATIVE STATEMENT OF CASH FLOWS, CONTINUED
For the years ended December 31, 2014 and 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (752,851)	$ (783,909)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	878,015	893,192
(Increase) decrease in:		
Accounts receivable	3,305	(3,348)
Other current assets	11,688	1,003
Other noncurrent assets	9,339	154,152
Increase (decrease) in:		
Accounts payable	23,192	787
Other current liabilities	24,281	(22,297)
Other noncurrent liabilities	45,034	46,902
Total adjustments	994,854	1,070,391
Net cash provided by operating activities	$ 242,003	$ 286,482

Supplemental disclosure of non-cash transactions:

In 2014, due to obsolescence and related factors, the Port wrote off $1,648,452 of obsolete assets with an associated accumulated depreciation of $1,262,750, for a net loss of $385,702 as a result of extensive capital asset review by the fixed asset review team, chaired by the Executive Director, in accordance with recommendations from the Washington State Auditor after their completion of their most recent three-year audit. See Note 4.

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Port was created in 1948 and operates under the laws of the State of Washington applicable to a Port district. The financial statements of the Port have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America, as they are applied to governments. The accounting policies of the Port conform to accounting principles generally accepted in the United States of America, as applicable to proprietary funds of governmental units, except as otherwise noted. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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 government that provides industrial and commercial property rentals, a marina and airport facilities to the general public and is supported by user charges, taxes and 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. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port is a primary government and has no component units.

Basis of Accounting and Reporting

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

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

The Port uses the full-accrual framework 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Basis of Accounting and Reporting, Continued

The Port distinguishes between operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for the use of Port facilities, including the marina, airport, rail, utilities and property rentals. Operating expenses for the Port include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues include ad valorem tax levy revenues, interest income, grant reimbursements and other nonoperating revenues. Nonoperating expenses include interest expense, election expense, environmental expense and other nonoperating expenses.

Assets, Liabilities and Equities

<u>Cash and Cash Equivalents</u> - See Note 2 and the Statement of Cash Flows.

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2014 and 2013, respectively, the Port was holding $3,044,144 and $1,808,244 in short-term residual investments of surplus cash invested with financial institutions. This amount is shown on the financial statements as investments, not as cash equivalents.

In addition to these investments, the Port's cash and cash equivalents totaled $361,684 and $143,542 at December 31, 2014 and 2013, respectively. Cash and cash equivalents is made up of cash of $354,888 and $135,417, which included deposits in transit of $583 and $420 at Heritage Bank, and cash held at the Mason County Treasurer of $6,796 and $8,125 at December 31, 2014 and 2013, respectively.

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

<u>Investments</u> - See Note 2.

<u>Receivables</u>

Taxes receivable consists of property taxes and related interest and penalties. Because such taxes are considered liens on property and all property taxes are ultimately collected with interest at the statutory rate, the Port has not established a reserve for doubtful taxes receivable. See Note 3.

Accrued interest receivable consists of amounts earned on investments at the end of the year. Interest receivable consists of interest earned on investments and notes, at the end of the year, and is net of an allowance of zero.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Assets, Liabilities and Equities, Continued

Receivables, Continued

Accounts receivable consists of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. Receivables are recorded when either the asset or revenue recognition criteria have been met as discussed in Note 1, Basis of Accounting and Reporting. Accounts receivable are reported net of an allowance for amounts estimated to be uncollectible. Any amounts written off are adjusted to the allowance for doubtful accounts. The Port uses the reserve method of accounting for doubtful accounts, which is maintained based on historical analysis, as a percentage of outstanding receivables. Accounts receivable are written off according to criteria established by the Port. Any amounts written off are adjusted to the allowance for doubtful accounts. The Port’s accounts receivable at December 31, 2014 and 2013 was $37,360 and $40,665, respectively. Accounts receivable over ninety days at December 31, 2014 and 2013 was $0 and $123, respectively.

Allowance for doubtful accounts consists of the estimated amounts of customer accounts that will never be collected. The allowance is estimated from an annual review of historical and current customer activities. As of December 31, 2014 and 2013, the allowance for doubtful accounts was $34,000, respectively.

Notes receivable consists of amounts that are being paid on a pro-rata basis throughout the current year under agreed upon terms. The portion of notes receivable that exceeds one year is included in other noncurrent assets. Notes receivable is reported net of allowance for amounts estimated to be uncollectible. Any amounts written off are adjusted to the allowance for doubtful accounts for notes receivable. The Port uses the reserve method of accounting for doubtful notes receivable, both short-term and long-term. This is maintained on a historical analysis, as a percentage of outstanding balances for overall accounts, adjusted by management’s best estimate of probable losses, including specific allowances for troubled accounts. The Port’s short-term notes receivable was $85,445 and $83,287 at December 31, 2014 and 2013, respectively. The Port’s reserve for short-term was $45,500 at December 31, 2014 and 2013, respectively. The Port’s long-term notes receivable was $66,608 and $152,053 at December 31, 2014 and 2013, respectively. The Port’s reserve for long-term notes receivable was $50,500 and $100,500 at December 31, 2014 and 2013, respectively. See Notes 5 and 6.

Concentrations

For the years ended December 31, 2014 and 2013, respectively, no customers individually exceeded 10.00 percent of operating revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Assets, Liabilities and Equities, Continued

Significant Risks and Uncertainties

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, federal, state and local government regulations and changes in law.

Fair Value of Financial Instruments

The Port's financial instruments consist of cash and cash equivalents, investments, taxes receivable, accounts receivable, interest receivable, notes receivable, accounts payable, general obligation bonds payable and loans payable for which their current carrying amounts approximate fair value.

Amounts Due From Other Governments

This account includes amounts due from other governments for grants, entitlements, temporary loans, taxes and charges for services. See Note 15.

Inventories

The Port expenses office supplies, maintenance parts, inventory and supplies in the period they are acquired. In management's opinion, if these items were inventoried, no material change in net income would result.

Prepaid Expenses

Prepaid expenses are for items that are acquired or purchased during an accounting period, but not used or consumed during that accounting period.

Capital Assets and Depreciation - See Note 4.

Other Noncurrent Assets, Net

Other noncurrent assets, net represent notes receivable, net of allowance for doubtful notes receivable and other noncurrent assets, which include preliminary surveys. Preliminary surveys, which are expenses incurred for preliminary surveys, plans, investigations for the purpose of determining the feasibility of projects under contemplation. If construction results, the appropriate capital asset account is charged. If the work is abandoned, the appropriate operating or nonoperating expense account is charged. See Notes 5 and 6.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Assets, Liabilities and Equities, Continued

Compensated Absences

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

Vacation pay, which accrues on the employee's anniversary date, may be accumulated up to eighty hours and is payable upon separation, retirement or death. The accrued short-term and long-term compensated absences balances at December 31, 2014 and 2013 were $36,105 and $35,932, respectively.

In 2013, the Port elected to accrue vacation time as a lump sum after the respective employee's anniversary date. For 2014 and 2013, the Port is waiving the eighty hour maximum vacation hour accrual. In 2015, the Port will revert back to a maximum vacation hour accrual of eighty hours.

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 twenty-five percent of their accumulated sick leave provided that the employee has a minimum of five years of continuous service with the Port and meet all the requirements to be eligible for retirement under the Public Employees Retirement System.

Contracts and Retainage Payable

Contracts payable represent the current amount due for construction projects at December 31, 2014 and 2013, respectively. Retainage payable represent the amount retained on construction contracts at December 31, 2014 and 2013, respectively.

Advertising

The Port expenses its advertising costs as they are incurred. Advertising expense for the years ended December 31, 2014 and 2013 totaled $10,297 and $8,212, respectively.

Presentation of Certain Taxes

The Port collects various taxes from customers and remits those amounts to applicable taxing authorities. The Port's accounting policy is to exclude these taxes from revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Assets, Liabilities and Equities, Continued

Customer Deposits

Customer deposits represent tenant lease security deposits. Tenant's failure to pay or abandonment of the property and lease can be covered by the funds and is accessible to the Port.

Short-Term Debt - See Notes 10 and 11.

Long-Term Debt - See Notes 10 and 11.

Leases - See Note 12.

Net Position

Net position is reported under one of three classifications as follows:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation. The Port maintains a variety of internal use restrictions on various funds; however, none of these funds are restricted as defined here.

Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that do not meet the definition of net investment in capital assets or restricted net position.

Operating and Nonoperating Revenues and Expenses

Charges for services provided by the Port as well as for the use of the marina and industrial property (land and buildings) and utility operations are reported as operating revenues. Costs associated with these operating segments are reported as operating costs. Ad Valorem and other tax revenues, as well as grants, insurance settlements, timber sales and other miscellaneous revenues are reported as other nonoperating revenues. Interest on debt, cost of elections, environmental expenses and other miscellaneous costs are reported as other nonoperating expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Assets, Liabilities and Equities, Continued

Accounting and Reporting Changes

Effective for the year ending December 31, 2013, the Port implemented the GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities.* GASB 65 reclassifies certain items that were previously reported as assets and liabilities and recognizes these items as outflows of resources or inflows of resources. The major impact to the Port of this adoption was a change to the treatment of existing unamortized debt issuance costs, which are required to be expensed under GASB 65. As the statements are on a comparative basis, this change in accounting principle was required to be made as of January 1, 2012. The amount of unamortized debt issuance costs of $17,213 was written off at January 1, 2012, resulting in a $1,067 change in 2012 interest expense when the previous treatment of unamortized debt issuance expense was reversed. See Notes 11 and 18.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Reclassifications

Some reclassifications have occurred in the 2013 financial statements to be in conformity with the 2014 presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits

The carrying amount of the Port's cash deposits with financial institutions was $354,305 and $134,997 plus a deposit in transit of $583 and $420 and $6,796 and $8,125 temporarily held at the Mason County Treasurer's Office, for a total carrying value of $361,684 and $143,542 at December 31, 2014 and 2013, respectively. The total carrying amount of investments was $3,044,144 and $1,808,244 at December 31, 2014 and 2013, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

Deposits, Continued

The Port's deposits at year-end were entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The FDIC covers the Port's insured deposits. The PDPC provides collateral protection. The PDPC (established under RCW Chapter 39.58) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool. See Note 1.

Investments

Investments are stated at fair value. Interest on debt securities held as investments is recognized in nonoperating revenues when earned. Changes in the fair value of investments are included in nonoperating revenues (for unrealized gains) or nonoperating expense (for unrealized losses). See Note 1.

As of December 31, 2014, the Port had the following investments:

Investment	Maturities	Fair Value
Heritage Bank - Public Now Account	100% Liquid	$ 3,044,144
Total		$ 3,044,144

As of December 31, 2013, the Port had the following investments:

Investment	Maturities	Fair Value
Heritage Bank - Public Now Account	100% Liquid	$ 1,808,244
Total		$ 1,808,244

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

The Port uses a strategy of investing surplus funds in a mix of investment instruments including; short and intermediate term bonds of the US Government or its Agencies that may be held to maturity, certificates of deposit at regulated Washington banks and mutual funds of US Government Securities managed by professional fund managers.

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

Investments, Continued

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 Treasurer maintains the accounts of the Port at Heritage Bank in Shelton, a certified Public Depositary Institution. 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.

In 2014, the Port Commission formed a resolution for Local Government Investment Pool (LGIP) funding.

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 Calendar

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

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

NOTE 3 - PROPERTY TAX, CONTINUED:

The Port may levy up to $0.45 per $1,000 of assessed valuation for general Port purposes. This amount may be reduced for any of the following reasons:

a. Washington State law, in RCW Chapter 84.55.010, as amended by initiative 747, limits the growth of regular property taxes to one percent per year, after adjustments for new construction. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.

b. The Port may voluntarily levy taxes below the legal limit.

c. The State Constitution limits total regular property taxes to one percent of assessed valuation. If the combined taxes of all districts within the county exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

The Port's regular levy for 2014 and 2013 was $0.37092 and $0.34458 per $1,000 on a total assessed valuation of $1,911,366,017 and $2,020,093,366 for total regular levies of $708,967 and $696,082, respectively.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION:

Capital assets are tangible and intangible assets held and used in Port operations with an initial individual cost of $3,000 or more and an estimated useful life in excess of one year.

Major expenses for capital assets, including major repairs that increase the useful life of an asset, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. Intangible assets represent the cost of long-lived organizational master plans.

All capital assets are recorded at historical cost, or where historical cost is not known, at estimated historical costs. Donations of capital assets from developers and customers are recorded at estimated fair market values at the date of donation. Certain capital assets (notably Sanderson Airport) were acquired from other governmental entities in prior years and these assets are also recorded at their estimated fair market value at the time of the donation. The Port maintains detailed depreciable infrastructure records.

Certain capital assets have been acquired through bankruptcy proceedings from former tenants in satisfaction of amounts owed the Port. These assets are recorded at the lesser of the amount owed by the tenant to the Port or the estimated fair market value of the capital asset received.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION, 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.

An allowance for funds used during construction is capitalized, when material, as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such costs in the same manner as construction labor and material costs. During 2014 and 2013, the Port had no capitalized net interest costs and did not offset any interest costs by any interest income, respectively.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives using the straight-line method, full month convention, with useful lives of 3 to 50 years. The major categories are:

Buildings, structures and improvements	5 - 50 years
Other improvements	5 - 50 years
Trucks and vehicles	3 - 5 years
Machinery and equipment	5 - 7 years
Furniture and fixtures	3 - 7 years
Office equipment	3 - 5 years
Intangibles	10 - 20 years

The Port's capital asset listing, starting with the formation of the Port in 1948, is extensive and is maintained manually in an excel worksheet program. Upon the recommendation of the Washington State Auditor, at the completion of their three-year audit in September, 2014, the Port formed a fixed asset review team, chaired by the Port's Executive Director, to research and review each asset listing on the Port's capital asset list.

The fixed asset review team met formally several times to review each listing, perform additional research, and to report back to the team. The result of their formal review of the capital assets was to identify various historical assets that were no longer in service. Such assets included obsolete water lines, which had been abandoned in place, additional assets that had been transferred to the City, such as additional water lines, assets that were obsolete and had been demolished, junked or replaced, and assets that were transferred to the Port's small asset tracking list. Any asset that was obsolete, but were still intact, was designated as eligible to be sold through a surplus process. Those assets were declared surplus and sold in 2015 and any of the assets declared surplus that did not sell were then disposed. See Note 19.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION, CONTINUED:

The team reviewed each asset listing, adding any known additional information on the capital asset listing for future reference. The end result of the team's research and review was to list out the assets that they proposed to be removed from the Port's capital asset listing. The team prepared a detailed report and forwarded it to the Commissioners for their review. The Commissioners, after their review, moved to accept the report from the fixed asset review team and approved the removal of the proposed capital assets and corresponding accumulated depreciation as of the dates indicated in the report. See Statement of Cash Flows supplemental disclosure of non-cash transactions.

The following summarizes the capital assets that were disposed of due to this process along with a grouping by reason for disposition:

Description	Cost	Accumulated Depreciation	Loss on Disposition
Buildings	$ 244,852	$ (157,797)	$ 87,055
Improvements other than buildings	1,294,652	(1,002,456)	292,196
Machinery and equipment	108,948	(102,497)	6,451
Total	$ 1,648,452	$ (1,262,750)	$ 385,702

Reason for Disposition	Cost	Accumulated Depreciation	Loss on Disposition
Obsolete, abandoned in place	$ 232,116	$ (189,104)	$ 43,012
Transferred to City	244,282	(55,025)	189,257
Demolished, junked or replaced	1,170,706	(1,017,273)	153,433
Transferred to small asset tracking list	1,348	(1,348)	--
Total	$ 1,648,452	$ (1,262,750)	$ 385,702

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION, CONTINUED:

Capital assets activity for the year ended December 31, 2014 was as follows:

Asset Category	Beginning Balance 01/01/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital assets not being depreciated				
Land	$ 2,782,587	$ 20,341	$ --	$ 2,802,928
Construction in progress	1,339,094	554,059	(1,851,523)	41,630
Total capital assets not being depreciated	4,121,681	574,400	(1,851,523)	2,844,558
Capital assets being depreciated				
Buildings	12,225,653	636,237	(244,852)	12,617,039
Improvements other than buildings	12,490,203	1,127,134	(1,294,652)	12,322,685
Machinery and equipment	835,188	4,358	(113,305)	726,240
Intangible assets	396,370	--	--	396,370
Total capital assets being depreciated	25,947,414	1,767,729	(1,652,809)	26,062,334
Less accumulated depreciation for				
Buildings	(4,206,667)	301,771	(157,797)	(4,350,641)
Improvements other than buildings	(8,351,109)	525,778	(1,002,456)	(7,874,431)
Machinery and equipment	(784,427)	22,662	(102,497)	(704,592)
Intangible assets	(174,918)	27,804	--	(202,722)
Total accumulated depreciation	(13,517,121)	878,015	(1,262,750)	(13,132,386)
Total capital assets being depreciated, net	12,430,293	889,714	(390,059)	12,929,948
Total capital assets, net	$ 16,551,974	$ 1,464,114	$ (2,241,582)	$ 15,774,506

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION, CONTINUED:

Capital assets activity for the year ended December 31, 2013 was as follows:

Asset Category	Beginning Balance 01/01/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets not being depreciated				
Land	$ 2,695,142	$ 87,445	$ --	$ 2,782,587
Construction in progress	447,558	1,594,545	(703,009)	1,339,094
Total capital assets not being depreciated	3,142,700	1,681,990	(703,009)	4,121,681
Capital assets being depreciated				
Buildings	12,210,888	14,765	--	12,225,653
Improvements other than buildings	11,895,274	594,929	--	12,490,203
Machinery and equipment	815,050	20,138	--	835,188
Intangible assets	316,436	104,448	(24,514)	396,370
Total capital assets being depreciated	25,237,648	734,280	(24,514)	25,947,414
Less accumulated depreciation for				
Buildings	(3,908,926)	297,741	--	(4,206,667)
Improvements other than buildings	(7,829,721)	521,388	--	(8,351,109)
Machinery and equipment	(741,261)	43,166	--	(784,427)
Intangible assets	(158,205)	30,897	(14,184)	(174,918)
Total accumulated depreciation	(12,638,113)	893,192	(14,184)	(13,517,121)
Total capital assets being depreciated, net	12,599,535	(158,912)	(10,330)	12,430,293
Total capital assets, net	$ 15,742,235	$ 1,523,078	$ (713,339)	$ 16,551,974

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION, CONTINUED:

Construction Commitments

The Port has active construction projects as of December 31, 2014. The projects include:

Project	Spent To-Date	Remaining Commitment
SF building demo	$ 28,811	$ 5,194
Building 1 and 3 waterproofing	11,909	22,977
JP kiln demo	910	3,884
	$ 41,630	$ 32,055

The Port has active construction projects as of December 31, 2013. The projects include:

Project	Spent To-Date	Remaining Commitment
Flight planning center	$ 8,452	$ 300
JP unaccountable water	33,324	--
SF obstruction removal	20,169	200
OBM public dock	298,923	2,300
Slurry seal	684,976	10,200
Apron rehab striping	280,867	300
SF timber sale	12,383	36,600
	$ 1,339,094	$ 49,900

NOTE 5 - NOTES RECEIVABLE, CURRENT PORTION:

	2014	2013
Notes receivable, current portion, Notes 1 and 6	$ 85,445	$ 83,287
Less allowance for doubtful notes receivable, current portion, Note 1	(45,500)	(45,500)
Total notes receivable, current portion, net of allowance for doubtful notes receivable	$ 39,945	$ 37,787

NOTE 6 - OTHER NONCURRENT ASSETS, NET:

	2014	2013
$197,776 note receivable - equipment and sales tax from a tenant, monthly payments of $3,805, 6.00% interest, maturing June 1, 2016, secured by UCC filing on equipment.	$ 60,567	$ 99,522
$200,768 note receivable - extended rent from a tenant , monthly payments of $3,346, 0.00% interest, maturing July 1, 2017, unsecured.	85,900	126,054
$17,737 note receivable - extended rent from a tenant , monthly payments of $311, 0.00% interest, maturing May 1, 2016, unsecured.	5,291	9,025
$1,775 note receivable - extended rent from a tenant, monthly payments of $37, 0.00% interest, maturing August 31, 2015, unsecured. In arrears at December 31, 2014. See Note 19.	295	739
Total notes receivable	152,053	235,340
Less current portion, notes receivable, Notes 1 and 5	(85,445)	(83,287)
Total notes receivable, net of current portion	66,608	152,053
Less allowance for doubtful notes receivable, Note 1	(50,500)	(100,500)
Total notes receivable, net of current portion and allowance for notes receivable	16,108	51,553
Preliminary surveys, Note 1	61,794	35,688
	$ 77,902	$ 87,241

NOTE 7 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

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

NOTE 8 - PENSION PLANS:

Substantially all Port 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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

NOTE 8 - PENSION PLAN, CONTINUED:

Public Employees' Retirement System (PERS) Plans 1, 2, and 3, Continued

Plan Description, Continued

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

NOTE 8 - PENSION PLAN, CONTINUED:

Public Employees' Retirement System (PERS) Plans 1, 2, and 3, Continued

Plan Description, Continued

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

NOTE 8 - PENSION PLAN, CONTINUED:

Public Employees' Retirement System (PERS) Plans 1, 2, and 3, Continued

Plan Description, Continued

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

NOTE 8 - PENSION PLAN, CONTINUED:

Public Employees' Retirement System (PERS) Plans 1, 2, and 3, Continued

Plan Description, Continued

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Nonvested	101,191
Total	368,272

NOTE 8 - PENSION PLAN, CONTINUED:

Public Employees' Retirement System (PERS) Plans 1, 2, and 3, Continued

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	9.21%**	9.21%**	9.21% ***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73 percent for Plan 1 and 9.21 percent for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50 percent for Plan 1 and 4.92 percent for Plan 2.
***** Variable from 5.0 percent minimum to 15.0 percent maximum based on rate selected by the PERS 3 member.

NOTE 8 - PENSION PLAN, CONTINUED:

Public Employees' Retirement System (PERS) Plans 1, 2, and 3, Continued

Funding Policy, Continued

Both the Port and the employees made the required contributions. The Port's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$ 0	$ 34,798	$ 15,053
2013	$ 0	$ 29,645	$ 12,195
2012	$ 0	$ 25,561	$ 9,944

NOTE 9 - RISK MANAGEMENT:

The Port of Shelton maintains insurance against most normal hazards for commercial automobile, property loss and general liability.

Insurance settlements, if any, have not exceeded insurance coverage in each of the past three years.

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, 2014, there are 491 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies 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, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

NOTE 9 - RISK MANAGEMENT, CONTINUED:

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

$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 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 property loss.

Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. 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.

NOTE 10 - SHORT-TERM DEBT:

Short-term activities, which represent the current portion of long-term debt is detailed in Note 11, for the year ended December 31, 2014 was as follows:

Debt	Beginning Balance 01/01/2014	Additions	Reductions	Ending Balance 12/31/2014
2005 General Obligation Bonds	$ 50,000	$ 50,000	$ (50,000)	$ 50,000
2003 Series A Serial Bonds	90,000	95,000	(90,000)	95,000
CERB - 1992 - Road/Water Projects	14,150	--	(14,150)	--
CERB - 1996 - Building	15,556	15,555	(15,556)	15,555
DWSRF JP - State - Waterline	7,167	7,167	(7,167)	7,167
DWSRF SF - Federal - Waterline	44,836	44,836	(44,836)	44,836
Total	$ 221,709	$ 212,558	$ (221,709)	$ 212,558

NOTE 10 - SHORT-TERM DEBT, CONTINUED:

Short-term activities, which represent the current portion of long-term debt is detailed in Note 11, for the year ended December 31, 2013 was as follows:

Debt	Beginning Balance 01/01/2013	Additions	Reductions	Ending Balance 12/31/2013
2005 General Obligation Bonds	$ 50,000	$ 50,000	$ (50,000)	$ 50,000
2003 Series A Serial Bonds	90,000	90,000	(90,000)	90,000
CERB - 1992 - Road/Water Projects	13,606	14,150	(13,606)	14,150
CERB - 1996 - Building	15,556	15,556	(15,556)	15,556
DWSRF JP - State - Waterline	7,167	7,167	(7,167)	7,167
DWSRF SF - Federal - Waterline	44,836	44,836	(44,836)	44,836
Total	$ 221,165	$ 221,709	$ (221,165)	$ 221,709

NOTE 11 - LONG-TERM DEBT:

The Port of Shelton 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.

Effective January 1, 2012, the previously recorded unamortized debt issuance costs were removed per GASB 65. See Notes 1 and 18.

The 2003 and 2005 general obligation bonds were incurred for buildings and infrastructure. General obligation bonds outstanding at December 31, 2014 are as follows:

Description	Original Amount	Maturity	Interest Rate	Amount
2005 General Obligation Bonds	$ 1,120,000	2025	2.91% - 3.80%	$ 745,000
2003 Series A Serial Bonds	$ 1,085,000	2021	3.15% - 4.86%	670,000
2003 Series C Deferred Serial Bonds	$ 350,000	2023	4.55%	350,000
Total general obligation bonds outstanding				1,765,000
Less current portion				(145,000)
Total long-term general obligation bonds, net				$ 1,620,000

NOTE 11 - LONG-TERM DEBT, CONTINUED:

The annual debt service requirements to maturity for general obligation bonds at December 31, 2014 are as follows:

Year ending December 31	Total	Principal	Interest
2015	$ 223,980	$ 145,000	$ 78,980
2016	227,393	155,000	72,393
2017	230,224	165,000	65,224
2018	227,586	170,000	57,586
2019	224,608	175,000	49,608
2020 - 2034	986,645	870,000	116,645
2025 - 2026	87,125	85,000	2,125
Total	$ 2,207,561	$ 1,765,000	$ 442,561

The 2003 and 2005 general obligation bonds were incurred for buildings and infrastructure. General obligation bonds outstanding at December 31, 2013 are as follows:

Description	Original Amount	Maturity	Interest Rate	Amount
2005 General Obligation Bonds	$ 1,120,000	2025	2.91% - 3.80%	$ 795,000
2003 Series A Serial Bonds	$ 1,085,000	2021	3.15% - 4.86%	760,000
2003 Series C Deferred Serial Bonds	$ 350,000	2023	4.55%	350,000
Total general obligation bonds outstanding				1,905,000
Less current portion				(140,000)
Total long-term general obligation bonds, net				$ 1,765,000

The annual debt service requirements to maturity for general obligation bonds at December 31, 2013 are as follows:

Year ending December 31	Total	Principal	Interest
2014	$ 224,885	$ 140,000	$ 84,885
2015	223,980	145,000	78,980
2016	227,393	155,000	72,393
2017	230,224	165,000	65,224
2018	227,586	170,000	57,586
2019 - 2023	1,125,003	965,000	160,003
2024 - 2026	173,375	165,000	8,375
Total	$ 2,432,446	$ 1,905,000	$ 527,446

NOTE 11 - LONG-TERM DEBT, CONTINUED:

Subordinated interagency loans outstanding at December 31, 2014 are as follows:

Description	Original Amount	Maturity	Interest Rate	Amount
CERB - 1996 - Building	$ 280,000	2020	6.00%	$ 93,333
DWSRF JP - State - Waterline	$ 136,182	2024	1.00%	71,675
DWSRF SF - Federal - Waterline	$ 851,875	2024	1.00%	448,355
Total subordinated interagency loans				613,363
Less current portion				(67,558)
Total long-term portion of subordinated interagency loans outstanding				$ 545,805

The annual debt service requirements to maturity for subordinated interagency loans at December 31, 2014 are as follows:

Year ending December 31	Total	Principal	Interest
2015	$ 78,358	$ 67,558	$ 10,800
2016	76,906	67,559	9,347
2017	75,452	67,558	7,894
2018	73,999	67,559	6,440
2019	72,546	67,559	4,987
2020 - 2024	284,304	275,570	8,734
2025 - 2026	--	--	--
Total	$ 661,565	$ 613,363	$ 48,202

Subordinated interagency loans outstanding at December 31, 2013 are as follows:

Description	Original Amount	Maturity	Interest Rate	Amount
CERB - 1992 - Road/Water Projects	$ 200,000	2014	4.00%	$ 14,150
CERB - 1996 - Building	$ 280,000	2020	6.00%	108,889
DWSRF JP - State - Waterline	$ 136,182	2024	1.00%	78,842
DWSRF SF - Federal - Waterline	$ 851,875	2024	1.00%	493,191
Total subordinated interagency loans				695,072
Less current portion				(81,709)
Total long-term portion of subordinated interagency loans outstanding				$ 613,363

NOTE 11 - LONG-TERM DEBT, CONTINUED:

The annual debt service requirements to maturity for subordinated interagency loans at December 31, 2013 are as follows:

Year ending December 31	Total	Principal	Interest
2014	$ 94,529	$ 81,709	$ 12,820
2015	78,359	67,559	10,800
2016	76,905	67,559	9,346
2017	75,452	67,559	7,893
2018	73,999	67,559	6,440
2019 - 2023	304,327	291,126	13,201
2024 - 2026	52,523	52,001	522
Total	$ 756,094	$ 695,072	$ 61,022

The accompanying Schedule of Liabilities (Schedule 09) provides a listing of the outstanding debt of the Port and summarizes the Port's debt transactions for the years ended December 31, 2014 and 2013, respectively. The debt service requirements, including interest at December 31, 2014 are as follows:

Year ending December 31	General Obligation Bonds	Other Debt	Total Debt
2015	$ 223,980	$ 78,358	$ 302,338
2016	227,393	76,906	304,299
2017	230,224	75,452	305,676
2018	227,586	73,999	301,585
2019	224,608	72,546	297,154
2020 - 2024	986,645	284,304	1,270,949
2025 - 2026	87,125	--	87,125
Total	$ 2,207561	$ 661,565	$ 2,869,126

The debt service requirements, including interest at December 31, 2013 are as follows:

Year ending December 31	General Obligation Bonds	Other Debt	Total Debt
2014	$ 224,885	$ 94,529	$ 319,414
2015	223,980	78,359	302,339
2016	227,393	76,905	304,298
2017	230,224	75,452	305,676
2018	227,586	73,999	301,585
2019 - 2023	1,125,003	304,327	1,429,330
2024 - 2026	173,375	52,523	225,898
Total	$ 2,432,446	$ 756,094	$ 3,188,540

NOTE 11 - LONG-TERM DEBT, CONTINUED:

Changes in Long-Term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities.

	Beginning Balance 01/01/14	Additions	Reductions	Ending Balance 12/31/14	Due Within One Year
G.O. bonds payable	$ 1,905,000	$ --	$ 140,000	$ 1,765,000	$ 145,000
Compensated absences	15,810	2,086	--	17,896	--
Other post-employment benefit	177,251	42,948	--	220,199	--
Loans payable	695,072	--	81,709	613,363	67,558
Total long-term liabilities	$ 2,793,133	$ 45,034	$ 221,709	$ 2,616,458	$ 212,558

During the year ended December 31, 2013, the following changes occurred in long-term liabilities.

	Beginning Balance 01/01/13	Additions	Reductions	Ending Balance 12/31/13	Due Within One Year
G.O. bonds payable	$ 2,045,000	$ --	$ 140,000	$ 1,905,000	$ 140,000
Compensated absences	11,411	4,399	--	15,810	--
Other post-employment benefit	134,748	42,503	--	177,251	--
Loans payable	776,237	--	81,165	695,072	81,709
Total long-term liabilities	$ 2,967,396	$ 46,902	$ 221,165	$ 2,793,133	$ 221,709

NOTE 12 - LEASE COMMITMENTS:

Operating Lease

The Port leases certain equipment under non-cancelable operating leases. The total cost for such leases, including maintenance and usage charges was $7,654 and $15,591 for the years ended December 31, 2014 and 2013, respectively. The future minimum lease payments for these leases are as follows:

Year	Total
2015	$ 5,404
2016	4,923
2017	4,788
2018	1,197
Total	$ 16,309

NOTE 12 - LEASE COMMITMENTS, CONTINUED:

Property Leases

As part of its normal operations, the Port of Shelton leases land and buildings under non-cancelable operating leases to tenants who intend to utilize the facilities to generate direct benefits within the community.

The Port's objective is that lease terms be for a length of time that will assist in insuring economic stability and a fair return on the value of the facilities being leased. Lease terms, not including renewal options, run from one up to twenty-five years. Renewal option periods run from one to twenty-five years, with the majority falling into the five year range. In addition, there are properties that are rented on a month-to-month basis. All leases are accounted for as operating leases.

Minimum annual rental payments for all operating leases for the next five years and thereafter having non-cancelable terms exceeding one year as of December 31, 2014 are as follows:

Year	Total
2015	$ 1,188,250
2016	964,284
2017	735,404
2018	424,339
2019	275,055
2020 - 2024	325,793
2025 - 2029	163,780
2030 - 2034	114,827
2035 - 2039	68,827
2040 - 2044	31,827
Total	$ 4,292,386

Property lease revenues for the airport and property lease and rental operations for the years ended December 31, 2014 and 2013 was $1,369,311 and $1,274,921, respectively. The total cost of leased property for December 31, 2014 and 2013 was $12,534,904 and $10,370,320, respectively. Accumulated depreciation on the leased property as of December 31, 2014 and 2013 was $4,741,710 and $3,439,881, respectively.

NOTE 13 - RESTRICTED NET POSITION

The Port's Statement of Net Position reports $0 of restricted net position as of December 31, 2014 and 2013, respectively, all of which is restricted by government law or regulation, constitutional provision or contractual agreement.

NOTE 14 - CONTINGENCIES AND LITIGATION:

The Port of Shelton has recorded in its financial statements all material liabilities. For 2014 and 2013, there are no other claims, matters of litigation or assessments. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

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.

NOTE 15 - CAPITAL CONTRIBUTIONS - GRANTS:

During 2009, the Port was awarded various grants from the Federal Aviation Administration (FAA) and the Washington State Department of Transportation, Aviation Division (WSDOT AD) for various airport improvements. In 2012, the Port incurred $6,310 and $4,312, for a total of $10,622 of eligible expenses towards two of these Federal Aviation Administration grants and received the reimbursements in 2013. In 2013, the Port incurred $81,846 and $75,095 on the remaining 2009 FAA grants, which closed out those grants. In 2013, the Port was awarded a $600,000 grant from the FAA and a $45,671 grant from WSDOT for various airport improvements. In 2013, the Port incurred $600,000 and $45,283 for a total of $645,283 on these two grants, respectively. In addition, in December, 2013, the Port was notified by the FAA that they were retroactively amending the $600,000 grant to allow for additional airport improvements. The Port incurred an additional $74,444 of eligible expenditures towards the amended FAA grant by December 31, 2013. The Port incurred the balance of the remaining eligible grant expenditures of $6,056 in 2014. In 2014, the FAA $600,000 grant was formally amended to $680,500. The Port completed the projects and received the remaining grant reimbursements in 2014.

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 then is eligible to participate in the maintenance reimbursement portion of the grant for up to ten years. The Port incurred $3,646 and $9,291 of eligible reimbursable maintenance expenditures in 2014 and 2013, respectively.

During 2012, the Port was awarded a $25,000 Washington State Parks and Recreation Commission, State Parks Clean Vessel Sewage Disposal Facility grant for the engineering to relocate the floating restroom in the Oakland Bay Marina. The Port incurred $9,027 of eligible expenses in 2013. The Port completed the project and received the remaining grant reimbursements in 2013.

During 2012, the Port was awarded a $40,000 USDA, Rural Development RBEG grant for the Johns Prairie Wholesale Water Connection project. In 2012, the Port incurred $40,000 of eligible expenditures. The Port completed the project and received the $40,000 grant reimbursement in 2013.

NOTE 15 - CAPITAL CONTRIBUTIONS - GRANTS, CONTINUED:

In 2013, the Port continued to participate in a local public utility energy program for electrical lighting upgrades. In 2013, the Port incurred $3,160 of eligible expenditures to be reimbursed under the lighting grant.

Capital contributions include the amounts owing to the Port for reimbursement at December 31, 2014 and 2013, respectively, for those grants.

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS:

In addition to pension benefits as described in Note 9, the Port, through the Health Care Authority (HCA), administers an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan.

Plan Description and Contributions Information

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB) created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

The relationship between the PEBB OPEB plan and its member 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 HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 60 of the state's K-12 schools and educational service districts (ESDs) and 221 political subdivisions and tribal governments, including the Port. Additionally, the PEBB plan is available to the retirees of the remaining 237 K-12 schools and ESDs. As of June 2014, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	108,291	29,674	137,965
K-12 schools and ESDs[2]	2,138	31,642	33,780
Political subdivisions	12,079	1,547	13,626
Total	122,508	62,863	185,371

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS, CONTINUED:

[1] Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2] In Fiscal Year 2014, there were 101,445 full-time equivalent active employees in the 243 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

	Active Employees	Retirees	Total
Port of Shelton	9	--	9

Plan Description and Funding Policy, Continued

For Washington State fiscal year 2014, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]			Contributions		
Medical	$	930	Employer contribution	$	880
Dental		81	Employee contribution		137
Life		4			
Long-term disability		2	Total	$	1,017
Total	$	1,017			

[3] Per 2014 Index Rate Model 3.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2013, the average weighted implicit subsidy was valued at $294 per member per month, and in calendar year 2014, the average weighted implicit subsidy was projected to be $291 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget.

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS, CONTINUED:

Plan Description and Funding Policy, Continued

In calendar year 2013, the explicit subsidy was up to $150 per member per month, and in calendar year 2014, the explicit subsidy was up to $150 per member per month.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2014, the cost of the subsidies was approximately 5.9 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan and actuarial methods and assumptions used.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:
http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Summary of Significant Accounting Policies

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported by the state as an agency fund using the accrual basis. It has no investments. The PEBB OPEB plan does not issue a publically available financial report.

Annual OPEB Cost and Net OPEB Obligation

The Port's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following tables show the components of the Port's annual OPEB cost for fiscal year 2014 and changes in the net OPEB obligation (NOO):

Annual OPEB Cost		
Annual required contribution	$	42,948
Interest on NOO		--
Amortization on NOO		--
Annual OPEB cost (expense)	$	42,948

Net OPEB Obligation		
NOO beginning of year	$	177,251
Annual OPEB cost (expense)		42,948
Contributions made		--
NOO end of year*	$	220,199

* Estimated

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS, CONTINUED:

Annual OPEB Cost and Net OPEB Obligation, Continued

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014, 2013 and 2012 was as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 42,948	0%	$ 220,199
2013	$ 42,503	0%	$ 177,251
2012	$ 36,527	0%	$ 134,748

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2014, the latest date for which information is available, was as follows:

Unfunded Actuarial Accrued Liability (UAAL)		
Actuarial accrued liability (AAL)	$	255,168
Actuarial value of plan assets		--
Unfunded actuarial accrued liability (UAAL)	$	255,168
UAAL/Covered Payroll		
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	$	546,569
UAAL as a percentage of covered payroll		46.7%

Actuarial valuations of an ongoing plan 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 trends. 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.

Actuarial Methods and Assumptions

The Port has used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.20 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2010, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the PEBB study performed in 2011. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 17 - POLLUTION REMEDIATION:

On April 4, 2014, the Port received a written notification from DOE dated April 1, 2014 that they had completed a site assessment on a parcel in John's Prairie and was notifying the Port that they were issuing a no further action (NFA) determination on the site.

On April 23, 2014, the Port received a written notification dated April 17, 2014 from the DOE that one of the Port's properties in John's 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 agreement (VCP) with DOE for this site.

The Port had the site tested for potential contaminates in 2014 and 2015. The Port is working with DOE to clean up the site 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 and will complete the clean-up by mid-2015. The Port is in the process of requesting a no further action letter on the site.

The Port has incurred $1,550 of clean-up costs for this site by December 31, 2014. The Port estimates that the additional clean-up costs will be $22,366 for this site and has accrued that amount of expense at December 31, 2014. The Port anticipates that all costs will be incurred in 2015. See Note 19.

During 2014, the Port encountered asbestos while working on a commercial building. The asbestos clean-up was awarded to a qualified company and successfully removed in accordance with environmental requirements in 2014.

The Port is currently monitoring various Port sites with prior or existing environmental concerns including two sites with restrictive covenants and one site with a prior NFA determination.

NOTE 18 - CHANGE IN ACCOUNTING PRINCIPLE:

See Notes 1 and 11 for the change in accounting principle required under GASB 65 implemented in 2013.

NOTE 19 - SUBSEQUENT EVENTS:

The Port has evaluated events through May 27, 2015, which is the date the financial statements were available to be issued.

In 2015, the Port signed a Memorandum of Understanding with the Department of Emergency Management for the State of Washington for use of the fairgrounds in the event of a major disaster.

NOTE 19 - SUBSEQUENT EVENTS, CONTINUED:

In 2015, the Port Commission adopted the newest version of the Patron guide, the rules and regulations of the Oakland Bay Marina. All tenants were mailed the new version and a new agreement to sign.

In January, 2015, the planting of seedlings associated with the 2014 timber sale and harvest was finalized as part of the harvester's contract.

In 2015, a tenant is more than ninety days in arrears in their regular and deferred rent payments and has entered into an eight-month repayment plan for a total of $2,485. See Note 6.

As a part of entering into a voluntary clean-up program with DOE in 2014, the Port has sampled various locations on two separate occasions in 2015 with favorable results. The Port has petitioned DOE to determine that no further action is required. See Note 17.

The Port, Mason County and a marina tenant entered into mediation in 2015 regarding the issuance of an aquaculture permit. The issue has not been resolved at this time.

In 2015, the Port has petitioned Mason County to move the Urban Growth Area line out to the outer harbor line. Once completed, the Port will continue to request the City to annex that portion making the marina reside in total within the City limits.

In 2015, the Port expended approximately $225,000 in infrastructure improvement to include water, power and fiber optics along the west side of the closed runway for future development.

Three tenants are constructing their own buildings in 2015 for their cannabis processing and growing operations at Johns Prairie Industrial Park.

The Port's participation in the Shelton Harbor Restoration Grant Funding is continuing into 2015.

The Port Commission has authorized in 2015 up to $5,000 for a strategic planning project with the Shelton-Mason County Chamber of Commerce and the City.

In 2015, the Port Commissioner approved the 2014 disposition of assets as recommended by the Port Asset Review Team. After public notification, the Port held a surplus sale of items on May 6, 2015 that were obsolete and are no longer necessary for Port operations resulting in proceeds of approximately $392. See Note 4.

In 2015, the Port is in current negotiations to obtain property within the runway protection zone.

A tenant with a remaining lease term of approximately five years is being purchased by an out-of-state company.

PORT OF SHELTON
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST RETIREMENT BENEFITS
Schedule of Funding Progress
For the Year Ended December 31, 2014

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2011	$ --	$ 174,032	$ 174,032	0.0%	$ 502,397	34.6%
12/31/2012	$ --	$ 183,888	$ 183,888	0.0%	$ 482,272	38.1%
12/31/2013	$ --	$ 229,178	$ 229,178	0.0%	$ 514,763	44.5%
12/31/2014	$ --	$ 255,168	$ 255,168	0.0%	$ 546,569	46.7%

* Based on the alternative measurement method permitted under GASB Statement No. 45

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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