Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Grays Harbor

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

Published November 29, 2018

Report No. 1022569

Office of the Washington State Auditor
Pat McCarthy

November 29, 2018

Board of Commissioners
Port of Grays Harbor
Aberdeen, Washington

Report on Financial Statements

Please find attached our report on the Port of Grays Harbor'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 Grays Harbor

On Washington's Pacific Coast

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Port of Grays Harbor
January 1, 2017 through December 31, 2017

This schedule presents the status of findings reported in prior audit periods.

Audit Period: 1/1/2016 through 12/31/2016	**Report Ref. No.:** 1020008	**Finding Ref. No.:** 2016-001

Finding Caption:

The Ports internal controls were not adequate to ensure accurate financial reporting.

Background:

The Port reported $6.4 million as construction in progress on the 2016 financial statements that should have been reported as expenses for an ongoing dredging project. This is a large and infrequent project for the Port. Port management did not dedicate the necessary resources to research the correct accounting for these types of transactions to ensure its financial reporting was accurate and complete.

Our audit identified the following errors in the 2016 financial statements due to the improper capitalization of these projects:

Capital assets – other improvements was overstated by $7.3 million, which resulted in accumulated depreciation being overstated by $3.4 million.

Construction in progress was overstated by $6.4 million due to the current navigation channel deepening project, which was incorrectly classified. This resulted in prepaid expenses being under reported by $4.7 million

Due to these errors, net investment in capital assets was overstated by $10.3 million and total net position was overstated by $5.6 million.

The Port corrected the errors identified above.

Status of Corrective Action: (check one)

☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:

The 2016 financial statements were corrected prior to their issuance. Future infrequent and unusual transactions will be reviewed and researched by both the Director of Finance and the Accounting Manager to determine proper transaction recording and presentation.

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

Port of Grays Harbor
January 1, 2017 through December 31, 2017

Board of Commissioners
Port of Grays Harbor
Aberdeen, 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 Grays Harbor, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated November 15, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

November 15, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Grays Harbor
January 1, 2017 through December 31, 2017

Board of Commissioners
Port of Grays Harbor
Aberdeen, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Grays Harbor, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Grays Harbor, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

November 15, 2018

FINANCIAL SECTION

Port of Grays Harbor
January 1, 2017 through December 31, 2017

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Port of Grays Harbor
Management's Discussion and Analysis
December 31, 2017

INTRODUCTION

The following narrative provides an overview and analysis of the Port of Grays Harbor's financial activities for the fiscal year ended December 31, 2017, with selected comparative information for the year ended December 31, 2016. Information contained in this Management's Discussion and Analysis (MD&A) has been prepared by Port management and should be considered in conjunction with the Port's financial statements and notes to the financial statements, which immediately follow this discussion.

The Port of Grays Harbor is a Special Purpose Municipal Government, created by a vote of the people of Grays Harbor County, Washington, in 1911. The Port's primary operations include four deep-water Marine Terminals for receiving and shipping international cargoes, a general aviation Regional Airport, a Marina for recreational and commercial boating, and 1,600 acres of industrial properties to support private business activities.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the Port's financial statements. The Port's financial statements include three parts: the Port's basic financial statements; the notes to the financial statements; and the required supplementary information.

The Port's basic financial statements include: the *Statement of Fund Net Position*; the *Statement of Revenues, Expenses and Changes in Fund Net Position*; and the *Statement of Cash Flows*.

Understanding the financial trend of the Port begins with the *Statement of Fund Net Position*, and with the *Statement of Revenues, Expenses and Changes in Fund Net Position*.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

The *Statement of Fund Net Position* presents information on all of the Port's assets, liabilities and deferred inflows and outflows, with the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources reported 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.

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

The notes to the Port's 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 following this MD&A and the Port's basic financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Port's progress in funding its obligation to provide pension benefits to its employees.

FINANCIAL HIGHLIGHTS

- The assets of the Port and deferred outflows exceeded its liabilities and deferred inflows by $130 million at the end of 2017 (reported as net position). Of this amount, $23.8 million represents unrestricted net position, which may be used to meet the Port's ongoing obligations to its customers and creditors, and $106.3 million was invested in capital assets (net of related debt) while $52,808 is restricted.

- The Port's unrestricted net position increased $3.153 million (15.3 percent) from the previous year.

- The Port maintained a current ratio (current assets/current liabilities) of 3.0 to 1 at December 31, 2017, with total unrestricted current assets of $21.4 million and current liabilities of $7.2 million. This current ratio compares to 3.2 the previous year.

The following table summarizes the Port's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of December 31, 2017 and 2016.

FUND NET POSITION
December 31, 2017 and 2016
(in thousands)

	2017	2016
Assets:		
Current and other assets	$ 34,376	$ 31,052
Capital assets, net	119,434	124,498
Total Assets	153,810	155,550
Deferred Outflows of Resources		
Deferred outflow related to pensions	475	727
Total Deferred Outflows of Resources	475	727

FUND NET POSITION (continued)
December 31, 2017 and 2016
(in thousands)

	2017	2016
Liabilities:		
Current and other liabilities	7,179	6,793
Non-current liabilities	16,351	19,088
Total Liabilities	23,530	25,881
Deferred Inflows of Resources:		
Deferred inflows related to pensions	601	177
Total Deferred Inflows of Resources	601	177
Net Position:		
Net investment in capital assets	106,317	109,587
Restricted	53	-
Unrestricted net position	23,784	20,632
Total Net Position	$ 130,154	$ 130,219

SUMMARY OF FINANCIAL OPERATIONS AND CHANGES IN FUND NET POSITION

The Statement of Revenues, Expenses, and Changes in Fund Net Position shows how the port's net position changed during the current fiscal year as a result of operations. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected accounts receivable).

- **Revenues:** Port revenues are reported in two categories: operating revenues and non-operating revenues, which include capital contributions.

  - **Operating Revenues:** Port operating revenues increased $3,003,901 (10.9 percent) over 2016. The increase is a result of improving U.S. export market conditions. The Port’s vessel calls and export cargo handling activity were up resulting in a $2,275,632 increase of revenues (10.3 percent) in the Port’s marine terminals, pilotage services and ship assist services divisions. All other divisions (industrial properties, airport and marina) increased $728,269 (13 percent) over the previous year.

  - **Non-Operating Revenues:** 2017 non-operating revenue totaled $4,316,034, an increase of $949,905 (28 percent) over 2016. $1,083,345 of this total is due to a grant from Washington State to assist in funding the Port’s local share of the U.S. Army Corps of Engineers Grays Harbor Navigation Improvement Project. These non-capital contributions are considered other non-operating revenues.

  - **Capital Contributions:** Capital contributions reflect amounts received from federal, state and local sources to provide funding assistance for new Port infrastructure and major renovation projects. 2017 capital contributions totaled

$416,000, up $24,000 from 2016, and were used to fund 17.4 percent of the Port's 2017 capital asset acquisition and improvement projects.

- **Expenses:** Port expenses are reported in two categories: operating expenses and non-operating expenses.
  - **Operating Expenses:** Operating expenses increased $516,197 (1.6 percent) in 2017. Operating expenses directly relate to services provided by the Port to its customers. (See preceding discussion regarding Port operating revenues and activity.)
  - **Non-Operating Expenses:** 2017 non-operating expenses totaled $1.8 million, an increase of $641,065 (53 percent) over 2016. This increase was caused primarily by the U.S. Army Corps of Engineers implementation of the Grays Harbor Navigation Improvement Project to deepen the navigation channel serving the Port. The Port's local cost share contribution and expenses in 2017 for the Project totaled $1,083,345.

The following table summarizes the revenues, expenses and change in fund net position for fiscal years ending December 31, 2017 and 2016.

REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2017 and 2016
(in thousands)

	2017	2016
Operating Revenues	$ 30,610	$ 27,606
Non-Operating Revenues	4,316	3,369
Total Revenues	34,926	30,975
Operating Expenses	33,400	32,884
Non-Operating Expenses	1,852	1,214
Total Expenses	35,252	34,098
Increase in Net Position before Capital Contributions	(326)	(3,123)
Capital Contributions	416	392
Increase/(Decrease) in Net Position	90	(2,731)
Net Position at beginning of year	130,219	138,381
Change in Accounting Principle	(155)	-
Prior Period Adjustment	-	(5,431)
Net Position at end of year	$ 130,154	$ 130,219

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Port's investment in capital assets as of December 31, 2017 totaled $119.4 million (net of accumulated depreciation). The Port's capital assets include land, buildings, improvements (other than buildings), machinery and equipment, and construction in progress. Overall, the net book value of the capital assets decreased $5.0 million in 2017 as the depreciation expense exceeded the value of new assets acquired. Major capital asset events during 2017 included the following:

Bankline Reconstruction	$ 983,000
Terminal 4 Dolphin Replacement	607,000

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

Long-Term Debt. At December 31, 2017 the Port's total long-term debt outstanding was $19 million, of which $2.1 million will mature during 2018. Of the total amount outstanding $10.4 million is for general obligation bonds, $2.7 million for long-term contracts payable to the State of Washington, $3.2 million for pension fund obligations, and $2.8 million for other long-term debt.

Debt service principal payments on the Port's outstanding bonded debt will average $776,000 per year over the next five (5) years.

The Port's outstanding bonds were issued in 2011 with a Moody's Investor Service A1 rating for the general obligation bonds. Moody's upgraded the rating for the Port's outstanding bonds to Aa3 on February 15, 2017. The bonds are not rated by Standard & Poor's. Additional information on the Port's long-term debt can be found in note 7 of the Port's notes to the financial statements.

ECONOMIC OUTLOOK

The Port of Grays Harbor's mission is to promote trade and economic development for the region. The Port manages four major areas of operation to achieve this mission: Deep-water marine terminal docks and wharves; industrial (tenant-occupied) lands and buildings; a regional airport (FAA); and a commercial and recreational boat marina. The marine terminal division is the largest Port operation, accounting for 60 percent of the Port's revenues. The industrial property leasing activities, including the Satsop Business Park, account for 14 percent of revenues. There are several issues that could impact the future financial condition of the Port, including global economic conditions and changing market demands.

- Marine Terminal Operations: The Port has succeeded to attract and continues to develop diverse cargo shipment business activities with long-term private industry partners. Primary commodities currently handled by the Port are bulk, break-bulk and roll-on/roll-off (RoRo) cargo. The Port's marine terminal division has experienced tremendous growth since 2009. Global import and export market conditions are highly sensitive to international economic conditions including the relative value of the U.S. dollar to foreign currencies. Following a business peak in 2014, the strong U.S. dollar resulted in a slowing of U.S. exports through the Port.

During 2017, international trade markets stabilized, and marine terminal division operating revenues increased 9.4% over 2016. Below is further discussion of the economic outlook for each commodity and private industry partner currently served by the Port.

- The Port's terminal no. 2 bulk agricultural commodity export facility was completed in December 2003 and the equipment is privately owned by Ag Processing, Inc. (AGP). AGP expanded the export facility in 2011 by constructing six storage silos adjacent to the terminal. AGP maintains ownership and marketing rights for the facility, and contracts with the Port to operate the facility. Future revenue from terminal no. 2 activity is expected to grow as AGP continues to expand processing capacity at its U.S. Midwest plants and increase production of commodities that will be exported through the Port. Revenue will continue to be subject to fluctuation depending upon export market conditions. Expenses will adjust with revenues and thereby limit the financial exposure for the Port to such fluctuations.

- In 2007, Imperium Renewables built a biodiesel processing plant adjacent to Port terminals 1 and 2, selecting the site in order to maintain access to multi-modal transportation systems necessary to their operation. During 2015, the privately owned facility was purchased by Renewable Energy Group, Inc., a leader in the U.S. advanced biofuels industry. Domestically, the biodiesel market is sensitive to both domestic and global market and economic conditions, as well as Government energy policy, including price subsidies for the bio-energy sectors.

- In January 2009, Westway Terminals, now known as Contanda Terminals, leased property from the Port and subsequently constructed a liquid bulk storage and transfer facility also adjacent to Port terminals 1 and 2. The activity at this facility is subject to fluctuation due to commodity prices and international market conditions.

- In January 2009, the Port entered into agreements with The Pasha Group to market and develop the Port's marine terminal no. 4 to handle automobiles, over-high over-wide equipment and break-bulk cargo. Future activity is expected to grow, although will be subject to global import and export market conditions.

- Willis Enterprises conducts barge operations at Port terminal 3 shipping wood chips to West Coast destinations, and log export customers utilize Port terminal 4 to ship logs to the Pacific Rim. Future activity is expected to be stable, although will be subject to commodity pricing and other domestic and global market conditions.

• 2018 Budget and Business Forecast: For 2018, the Port forecasts stable U.S. import and export activity, and overall strong financial performance compared to the Port's 2017 fiscal year. Operating revenues are forecast to be $34.4 million compared to $28 million in 2017.

  During the year, the Port will prepare monthly internal management financial reports and regularly conduct in depth reviews of global market conditions and other important business indicators. The Port utilizes flexible budgeting practices, updating forecasts and adjusting spending plans quickly as needed throughout the year based upon the outcome of these in depth market and business analyses.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Port's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Port of Grays Harbor, Director of Finance and Administration, P.O. Box 660, Aberdeen, WA 98520, or by phoning (360) 533-9528.

PORT OF GRAYS HARBOR
STATEMENT OF FUND NET POSITION
December 31, 2017

		2017
ASSETS		
CURRENT ASSETS		
Cash & Cash Equivalents (Note 1)	$	9,499,401
Investments (Note 2)		32,107
Accounts Receivable, Net of Reserve for Doubtful		
Accounts of $255,260 (Note 1)		7,053,387
Taxes Receivable (Note 3)		186,767
Contracts Receivable (Note 1)		88,000
Interest Receivable (Note 1)		3,256
Restricted Assets		
Cash & Cash Equivalents (Note 1)		12,106,233
Inventory (Note 1)		251,326
Assets Held for Resale (Note 1)		163,123
Prepaid Expenses		4,090,231
TOTAL CURRENT ASSETS		33,473,831
NON-CURRENT ASSETS		
Contracts Receivable (Note 1)		902,000
Capital Assets (Note 4)		
Land		22,996,635
Construction in Progress		1,655,460
Capital Assets Being Depreciated (Note 4)		
Buildings and Structures		93,953,001
Machinery and Equipment		9,961,316
Improvements		131,825,092
Intangible Assets		2,314,250
Total Capital Assets Being Depreciated		238,053,659
Intangible Assets		
Less: Accumulated Depreciation		(143,271,358)
Total Net Capital Assets		119,434,396
TOTAL NON-CURRENT ASSETS		120,336,396
TOTAL ASSETS	$	153,810,227
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions (Note 5)		475,091
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	475,091

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PORT OF GRAYS HARBOR
STATEMENT OF FUND NET POSITION
December 31, 2017

		2017
LIABILITIES		
CURRENT LIABILITIES		
Warrants Payable	$	334,181
Accounts Payable		1,395,941
Compensated Absences (Note 1)		174,589
Accrued Interest Payable (Note 1)		44,997
Current Portion of Long-Term Liabilites (Note 7)		1,953,383
Accrued Expenses (Note 1)		668,409
Other Current Liabilities (Note 1)		2,607,235
TOTAL CURRENT LIABILITIES		7,178,735
NON-CURRENT LIABILITIES		
Compensated Absences (Note 1)		563,545
General Obligation Bonds (Note 7)		8,650,176
Contracts Payable (Note 7)		2,513,874
Net Pension Obligation (Note 5)		3,158,539
Other Post Employment Benefits (Note 11)		1,325,346
Other Non-Current Liabilities (Note 1)		139,980
TOTAL NON-CURRENT LIABILITIES		16,351,460
TOTAL LIABILITIES	$	23,530,195
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions (Note 5)		601,034
TOTAL DEFERRED INFLOWS OF RESOURCES	$	601,034
NET POSITION		
Net Investment in Capital Assets		106,316,963
Restricted		52,808
Unrestricted		23,784,318
TOTAL NET POSITION	$	130,154,089

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PORT OF GRAYS HARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2017

	2017
OPERATING REVENUES	
Airport Operations	$ 114,316
Marina Operations	1,147,744
Marine Terminal Operations	20,985,650
Property Lease/Rental Operations	2,626,023
Satsop Business Park Operations	2,334,843
Pilotage Operations	1,621,494
Ship Assist Services	1,720,906
Friends Landing Park Operations	58,812
Total Operating Revenues	30,609,788
OPERATING EXPENSES	
General Operations	22,525,916
Maintenance	2,136,042
General and Administrative	2,185,748
Depreciation (Note 4)	6,552,328
Total Operating Expenses	33,400,034
Operating Loss	(2,790,246)
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	246,861
Taxes Levied for (Note 3)	
General Purposes	2,420,604
Timber and Other Taxes	550,632
Gain (Loss) on Disposition of Assets	300
Interest Expense	(567,300)
Election Expense	(11,333)
Fisheries Enhancement/Public Facilities (Note 14)	(190,230)
Grays Harbor Navigation Channel Improvement Revenue (Not	1,083,345
Grays Harbor Navigation Channel Improvement Expense (Note	(1,083,345)
Other Non-Operating Revenues (Expenses)	14,291
Net Non-Operating Revenues	2,463,825
Loss Before Capital Contributions	(326,421)
Capital Contributions (Note 1)	416,494
Increase in Net Position	90,073
Net Position - January 1	130,219,063
Accounting Change (Note 12)	(155,047)
Net Position - December 31	$ 130,154,089

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PORT OF GRAYS HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 30,698,493
Payments to suppliers	(12,034,108)
Payments to employees	(13,526,042)
Other receipts (payments) (Note 14)	(201,808)
Net Cash Provided By Operating Activities	4,936,535
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Property Taxes for Operations & Debt Service	2,425,007
Cash Received from Timber & Other Taxes	550,632
Interest Income - Other	80,005
Sale of Scrap & Other Non-Operating Revenue	8,090
Grants for Non-Capital Items	1,095,645
Miscellaneous Non-Operating Expenses	(1,083,345)
Net Cash Provided by Non-Capital Financing Activities	3,076,034
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES	
Capital Contributions	416,494
Purchase of Capital Assets	(1,808,670)
Principal Paid on Capital Debt	(1,755,332)
Interest Paid on Capital Debt	(572,897)
Other Receipts	250,673
Net Cash Used in Capital & Related Financing Activities	(3,469,732)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales & Maturities of Investments	13,815
Investment Expense	(1,180)
Interest Income	168,198
Net Cash Provided by Investing Activities	180,833
Net Decrease in Cash & Cash Equivalents	4,723,670
Cash & Cash Equivalents, Beginning of Year	16,881,963
Cash & Cash Equivalents, End of Year	$ 21,605,633

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PORT OF GRAYS HARBOR
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	$ (2,790,246)
Adjustments to reconcile Net Operating Income (Loss)	
to Net Cash Provided by Operating Activities:	
Depreciation	6,658,168
Allowance for Uncollectible Accounts	32,218
Change in Assets & Liabilities:	
(Increase) Decrease in Accounts Receivable	31,966
(Increase) Decrease in Other Current Assets	1,066,014
Construction in Progress Work Expensed	58,833
Increase (Decrease) in Accounts & Warrants Payable	(168,909)
Increase (Decrease) in Other Current Liabilities	393,887
Increase (Decrease) in Other Long-Term Liabilities	(143,588)
Adjustment for election costs and other activity (Note 14)	(201,808)
Total Adjustments	7,726,781
Net Cash Provided By Operating Activities	$ 4,936,535
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	$ 0

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PORT OF GRAYS HARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The more significant of the Port's accounting policies are described below.

A. Reporting Entity - The Port of Grays Harbor is a special purpose government governed by an elected three-member commission. Organized under the laws of the State of Washington applicable to public port districts (RCW Title 53), the Port is authorized to provide for the development and maintenance of harbors and terminals, promote tourism, and foster economic development. The Port may acquire land for sale or lease for industrial or commercial purposes and may create industrial development districts.

Created by the voters of Grays Harbor County in 1911, the Port operates marine terminal, marina, airport and industrial park facilities, providing services to customers and the general public. In 2017, the Port's Marine Terminal facility accounts for 60% of the Port's revenue, and includes five deep water berths serving trading partners located throughout the Pacific Rim. Services include intermodal yard management, cargo handling and transfer, and storage services. Primary cargos handled during 2017 were agricultural dry bulk commodities (67%), liquid bulk (19%), automobiles and equipment (6%), and wood products (8%). The Port operates within its corporate boundaries, which are contiguous with those of Grays Harbor County located on Washington's Pacific Coast.

The accompanying financial statements present the Port of Grays Harbor and its component unit, an entity for which the Port is considered to be financially accountable, as described below.

The Industrial Development Corporation of the Port of Grays Harbor was created in 1982 with the purpose to facilitate the issuance of tax-exempt, nonrecourse revenue bonds to finance qualified private industrial development projects within Port District boundaries. Under Washington law, these bonds are payable solely from revenues derived from the projects financed, are not a direct or contingent liability of the Port, and are not a lien on Port properties or revenues.

The Industrial Development Corporation is governed by a board comprised of the Port's three elected Commissioners. Although legally a separate entity, the Industrial Development Corporation is, in substance, part of the Port's operations, and its account balances and transactions are included as a blended unit within the Port's financial statements.

B. Basis of Accounting and Reporting - The accounting records of the Port of Grays Harbor are maintained in accordance with methods prescribed by the Auditor of the State of Washington under authority of Chapter 43.09 RCW. The Port uses the GAAP *Budgeting, Accounting and Reporting System* in the State of Washington.

The accounts of the Port of Grays Harbor are maintained on a cost of services or an economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with the Port's activities are included on its statement of fund net position (or balance sheet). Total net position is segregated into net investment in capital assets, and restricted and unrestricted components and includes assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The statement of revenues, expenses and changes in net position (or operating statement) presents increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement which presents the results of operating, noncapital financing, capital and related financing and investing activities.

The Port of Grays Harbor uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are recognized.

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. The Port's primary operating revenues result from charges to customers for use of Port facilities and services in the Port's Marine Terminal division and Industrial Properties. Other operating revenues also result from the Port's Westport Marina, Bowerman Airport, ship assist, bar pilot and rv park operations. Expenses associated with the generation of these revenues are reported as operating expenses, including cost of services provided, maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position -

1. Cash and Cash Equivalents - It is the policy of the Port of Grays Harbor to invest all temporary cash surpluses. At December 31, 2017, short-term residual investments of cash totaled $21,605,634. Bank balances and book values do not differ materially. These amounts are classified on the statement of fund net position as cash and cash equivalents.

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.

2. Investments - See Note 2.

3. Receivables - Taxes receivable consist of property taxes plus related interest and penalties (see Note 3). Because such taxes are considered liens on property, no reserve for doubtful accounts is established. Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

Customer accounts receivable consist of amounts owed by private individuals or organizations for services including amounts owed for which billings have not been prepared. Accounts receivable are reported net of estimated uncollectible amounts. Accounts are either written off to the allowance for doubtful accounts when deemed uncollectible and further collection efforts would not be beneficial, or an amount is reserved for a portion or all of the account receivable while collection efforts continue although the probability of successful collection is unlikely.

Contracts and interest receivable consist of amounts owed by private individuals or organizations for purchase of land from the Port.

4. Restricted Assets – These accounts contain resources for industrial development in accordance with certain agreements or policies. Restricted assets at December 31, 2017 are composed of the following:

Repair & Replacement (R&R) Fund	$6,307,253
Property Acquisition Fund	3,528,459
Current CIP Reserve Fund	2,000,000
Pilotage Operating Reserve Fund	270,521
Total Restricted Assets	$12,106,233

5. Inventories and Assets Held for Resale

Inventories - Inventories are valued by the first-in-first-out method which approximates the market value. It is the policy of the Port of Grays Harbor to expense most spare parts for equipment and facility repairs as acquired. An inventory of such items would not be material in relation to either financial position or results of operations.

Assets Held for Resale - Assets held for resale consist of process equipment and intellectual property acquired by the Port in December 2013 from the court-appointed receiver of a Port tenant. The Port purchased the assets in order to market them along with the lease facilities to potential manufacturers. The assets are available for sale in their present condition and location. There is no intention of using the assets in the operations of the Port.

6. Prepaid Expenses – Prepaid expenses are those expenses paid in advance and expensed in the period they are incurred. Prepaid expenses consist of insurance premiums, dues and memberships, and other prepaid commitments.

Other prepaid commitments as of December 31, 2017 include $3,598,467 paid to and held on deposit with the U.S. Army Corps of Engineers (USACE) for the Port's cost share contribution (as Local Sponsor) for future construction costs associated with the deepening of the Grays Harbor Navigation Channel. It is expected that the USACE will fully expend the Port's funds and complete the Grays Harbor Navigation project by December 2018.

7. Capital Assets and Depreciation - See Note 4.

8. Compensated Absences - Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Port records vested unpaid leave for compensated absences as an expense and liability when incurred. The Port does not accrue non-vested sick leave benefits.

Vacation pay, which may be accumulated up to a maximum of 400 hours, is payable upon resignation, termination or death. Sick leave may be accumulated up to a maximum of 720 hours, but is vested or payable upon resignation, termination or death following one year of employment to a maximum of 360 hours. Vested unpaid vacation and sick leave entitlements at December 31, 2017 totaled $738,134. See Note 7.

9. Accrued Interest Payable - Consists of interest accrued on long-term debt issued by the Port. See Note 7.

10. Accrued Expenses - These accounts consist of accrued wages, accrued employee benefits, accrued payroll tax liabilities and accrued accounts payable.

11. Other Current Liabilities and Other Non-Current Liabilities – Included in Other Current and Other Non-Current liabilities are customer deposits, lease prepayments which do not meet revenue recognition criteria (see Note 9), taxes payable, retainages payable on public works contracts, contingency reserves (see Note 8), and environmental remediation obligations (see Note 10).

	Current Portion		Long-term Portion		Bal. Payable 12/31/2017
OTHER LIABILITIES					
Customer Lease Deposits	$	521,020	$	-	$ 521,020
Retainage Payable		28,742		-	28,742
Taxes Payable		145,513		-	145,513
Contingency Reserves (Note 8)		15,000			
Unearned Credits (Note 9)		1,154,622		139,980	1,294,602
Environmental Remediation Obligations (Note 10)		627,000		-	627,000
Other Liabilities		115,338		-	115,338
Total Other Liabilities	$	2,607,235	$	139,980	$ 2,732,215

12. **Capital Contributions -** Contributions from other entities for capital asset acquisition.

13. **Deferred Outflows/Inflows of Resources** –Deferred outflows represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. Deferred inflows represent the Port's proportionate share of the difference between expected and actual investment earnings on pension plan investments by the Washington State Department of Retirement Systems. See note 5.

14. **Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See note 5.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

B. Investments - As required by State law, all deposits and investments of the Port's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer's Local Government Investment Pool (LGIP), or certificates of deposit with Washington State banks and savings and loan institutions.

Investments in Local Government Investment Pool (LGIP)
The Port is a participant in the Local Government Investment Pool which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

Investments Measured at Amortized Cost

As of December 31, 2017, the Port had the following investments at amortized cost:

Investment	Maturity	Amortized Cost
Washington State Local Government Investment Pool	Less than one year	$ 17,291,439
Total		**$ 17,291,439**

Investments Measured at Fair Value

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

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

As of December 31, 2017, the Port had the following investments at fair value:

Investment	Maturity	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government National Mortgage Association (GNMA)	2033	$ 46,861	$ -	$ -
Total		**$ 46,861**	**$ -**	**$ -**

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port of Grays Harbor would not be able to recover the value of the investment or collateral securities. Of the Port’s total position of $17,291,439 in LGIP, none ($-0-) is exposed to custodial credit risk.

NOTE 3 - PROPERTY TAXES

The County Treasurer acts as agent to collect property taxes levied in Grays Harbor County for all taxing authorities. Collections are distributed after the end of each month to each taxing district. A revaluation of all property is required annually.

Under Washington law, property taxes are levied and become an enforceable lien against properties on January 1. Tax bills are mailed on February 14, and the first of two equal installment payments is due on April 30 with the second installment being due on October 31. The assessed value of property for the next year's levy is established on May 31 at 100% of market value.

Property taxes are recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible 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.

The Port of Grays Harbor may levy up to $0.45 per $1,000 assessed valuation in support of general operations. The rate is limited by the Washington State Constitution and Washington State law, RCW 84.55.010.

The Port's regular levy for 2017 was $0.4122 per $1,000 on an assessed valuation of $5,894,644,876 for a total regular levy of $2,429,931.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

A. Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. The Port's policy is to capitalize all assets costing $5,000 or more that have an estimated useful life of 5 years or more. Cost of maintenance, repairs and minor renewals is expensed. The Port changed the capitalization policy as of January 1, 2017 by raising the asset capitalization threshold from $500 to $5,000 (see Note 12).

All capital assets are valued at historical cost. The Port of Grays Harbor has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the terms of the agreements involved, the Federal or State government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable accounts.

When capital assets are retired or otherwise disposed of, the original cost of the asset, any subsequently capitalized costs and any accumulated depreciation are removed from the capital asset accounts. Any gain or loss on the disposition of the asset is recognized as current income or expense.

An allowance for funds used during construction is capitalized as part of the cost of the plant. The procedure is intended to remove the cost of financing construction activity from the statements of revenues, expenses and changes in fund net position, and to treat such cost in the same manner as construction labor and material costs. In 2017 there were no interest costs capitalized for funds borrowed to finance the construction of capital assets.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives. Depreciation is calculated by the straight line method and commences in the year following completion of a project or in the month following acquisition of an asset. The Port utilizes the following useful lives for depreciation calculations:

Buildings & Structures	10 to 50 years
Machinery & Equipment	5 to 20 years
Other Improvements	5 to 50 years
Intangible Assets	5 to 20 years

Depreciation expense for the year ended December 31, 2017 totaled $6,658,168, of which $6,552,328 was operating expense and $105,840 was related to non-operating activity (see Note 14).

B. Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance 1/1/17	Adjustment For Change In Accounting Principle	Adjusted Beginning Balance 1/1/17	Additions	Deletions	Ending Balance 12/31/17
Capital assets not being depreciated						
Land	$ 22,996,635	$ -	$ 22,996,635	$ -	$ -	$ 22,996,635
Construction in Progress	2,297,213	-	2,297,213	1,637,329	2,279,082	1,655,460
Total capital assets not being depreciated	**25,293,848**	**-**	**25,293,848**	**1,637,329**	**2,279,082**	**24,652,095**
Capital assets being depreciated						
Buildings & Structures	93,621,195	(80,749)	93,540,446	412,555	-	93,953,001
Machinery & Equipment	10,424,755	(531,701)	9,893,054	68,262	-	9,961,316
Improvements	130,101,077	(160,914)	129,940,163	1,893,391	8,462	131,825,092
Intangible Assets	2,302,809	(5,941)	2,296,868	17,382	-	2,314,250
Total capital assets being depreciated	**236,449,836**	**(779,305)**	**235,670,531**	**2,391,590**	**8,462**	**238,053,659**
Less Accumulated Depreciation for:						
Buildings & Structures	52,769,799	(64,005)	52,705,794	2,809,911	-	55,515,705
Machinery & Equipment	9,342,071	(439,014)	8,903,057	163,737	-	9,066,794
Improvements	73,221,865	(119,143)	73,102,722	3,633,866	8,462	76,728,126
Intangible Assets	1,912,173	(2,096)	1,910,077	50,656	-	1,960,733
Total accumulated depreciation	**137,245,908**	**(624,258)**	**136,621,650**	**6,658,170**	**8,462**	**143,271,358**
Total capital assets being depreciated, net of depreciation	**99,203,928**	**(155,047)**	**99,048,881**	**(4,266,580)**	**-**	**94,782,301**
Net capital assets	**$ 124,497,776**	**$ (155,047)**	**$ 124,342,729**	**$ (2,629,251)**	**$ 2,279,082**	**$ 119,434,396**

C. Construction and Other Significant Commitments - The Port of Grays Harbor has active construction projects and commitments to contractors as of December 31, 2017, as follows:

Project	Expended as of 12/31/17	Remaining Commitment
Airport Drainage, phase 2 project	$ 4,168	$ 163,367
Terminal Maintenance Dredging	-	261,397
Total	**$ 4,168**	**$ 424,764**

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	($3,158,539)
Pension assets	$0
Deferred outflows of resources	$475,091
Deferred inflows of resources	($601,034)
Pension expense/expenditures	$261,488

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1 Actual Contribution Rates	Employer	Employee*
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

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

- With a benefit that is reduced by three percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee*
January – June 2017:		
PERS Plan 2/3	6.23%	
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 2		6.12%
Employee PERS Plan 3		Varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 2		7.38%
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July – December 2017.

The Port's actual contributions to the plan were $219,627 to PERS Plan 1 and $307,697 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- For all systems, except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.

- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.

- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$1,981,410	$1,626,518	$1,319,106
PERS 2/3	4,127,425	1,532,021	(594,528)
Total	$6,108,835	$3,158,539	$1,913,634

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the Port reported a total pension liability of $3,158,539 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$1,626,518
PERS 2/3	1,532,021
Total	$3,158,539

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.034902%	0.034278%	0.000624%
PERS 2/3	0.044372%	0.044093%	0.000279%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	$65,333
PERS 2/3	196,155
Total	$ 261,488

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ 0	($60,697)
Contributions subsequent to the measurement date	113,920	0
Total	$113,920	($60,697)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$155,230	($50,386)
Net difference between projected and actual investment earnings on pension plan investments	0	(408,400)
Changes of assumptions	16,273	0
Changes in proportion and differences between contributions and proportionate share of contributions	20,033	(81,550)
Contributions subsequent to the measurement date	169,635	0
Total	$361,171	($540,336)

PERS 1 & PERS 2/3 Combined	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$155,230	($ 50,386)
Net difference between projected and actual investment earnings on pension plan investments	0	(469,097)
Changes of assumptions	16,273	0
Changes in proportion and differences between contributions and proportionate share of contributions	20,033	0
Contributions subsequent to the measurement date	283,555	0
Total	$475,091	($601,033)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2018	$(41,027)
2019	12,953
2020	(3,008)
2021	(29,615)
2022	--
Thereafter	--
Total	($60,697)

Year ended December 31:	PERS 2/3
2018	$(182,448)
2019	15,155
2020	(43,615)
2021	(165,890)
2022	12,172
Thereafter	15,824
Total	($348,801)

NOTE 6 - RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; damage to, theft of and destruction of assets or cargo; natural disasters; and employee injuries. To limit exposure, the Port of Grays Harbor purchases property, liability and related insurance coverage annually through a commercial insurance broker which provides coverage against most normal hazards. In comparison to prior years, there were no significant changes in the type and coverage of insurance policies purchased by the Port in 2017. Settlement claims have not exceeded commercial insurance coverage in any of the past three years.

The Port participates in the State of Washington workman's and unemployment compensation programs. Employee medical, dental, vision, long-term disability and life insurance coverages are provided for all eligible employees through standard plans offered by the Washington State Health Care Authority. The Port of Grays Harbor does not administer any of these plans.

On January 1, 2013, the Port merged with the Grays Harbor Public Development Authority (GHPDA), which was a member of Enduris. The Port elected to become a member of Enduris for the purpose of maintaining property insurance coverage for assets transferred by GHPDA to the Port located at the Satsop Business Park in Elma, WA. Property insurance coverage for all other assets owned by the Port is purchased from a commercial broker and is not included under the Enduris membership agreement.

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. 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. As of August 31, 2017, there were 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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

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

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt - The Port's long-term debt consists of bonds and loans for facility improvements, asset acquisition and expansion. As of December 31, 2017, contracts payable totaled $2,746,931 and general obligation bonds payable were $10,370,502.

B. General Obligation Bonds -

Bonds issued and outstanding as of December 31, 2017 are as follows:

2011 Limited Tax General Obligation Refunding Bonds (Series B), par amount $2,030,000, issued May 2011 to refund the Port's 1999 outstanding LTGO Series B bonds. All issued and outstanding 1999 LTGO Series B bonds were called on June 27, 2011. Proceeds from the 1999 LTGO Series A bonds were used to finance various improvements at the Port's airport and marina, the acquisition of administrative and maintenance equipment, and the acquisition of land in Hoquiam, Washington, reserved for general government purposes. The 2011 LTGO Series B bonds bear interest payable semi-annually at rates of 3.75% and 4.375%, and are due in annual installments of $315,000 to $650,000 through 2026.

2011 Limited Tax General Obligation Bonds (Series C), par amount $11,735,000, issued May 2011 to finance expansion of rail in the Port's marine terminal cargo yard. The 2011 LTGO Series C bonds bear interest payable semi-annually at rates of 4.0% to 5.75%, and are due in annual installments of $185,000 to $1,725,000 through December 2031.

The following is a summary of bonds payable as of December 31, 2017:

	Current Portion	Long-term Portion	Premium / (Discount)	Bal. Payable 12/31/2017
General Obligation Bonds				
2011 LTGO Refunding Series B	$ -	$ 2,030,000	$ (27,721)	$ 2,002,279
2011 LTGO Series C	1,725,000	6,665,000	(21,777)	8,368,223
Total GO Bonds	1,725,000	8,695,000	(49,498)	10,370,502
Total Bonds Payable	$ 1,725,000	$ 8,695,000	$ (49,498)	$ 10,370,502

As of December 31, 2017, the annual debt service requirements to maturity for the general obligation bonds outstanding are as follows:

	GO BONDS	
YEAR	Principal	Interest
2018	1,725,000	506,706
2019	510,000	437,706
2020	525,000	417,306
2021	550,000	394,994
2022	570,000	372,606
2023-2027	3,250,000	1,455,988
2028-2032	3,290,000	486,163
TOTALS	$ 10,420,000	$ 4,071,469

C. Contracts -

Long-term contracts payable outstanding as of December 31, 2017 are as follows:

	Current Portion	Long-term Portion	Bal. Payable 12/31/2017
CONTRACTS PAYABLE			
Contracts and Notes			
2004 CERB Loan (Warehouse H expansion)	$ 9,461	$ 68,930	$ 78,391
2007 CERB Loan (Satsop Warehouse Construction)	66,985	408,999	475,984
2010 CERB Loan (Terminal 1 Berth Enhancements)	45,500	591,500	637,000
2011 CERB Loan (Marine Terminal Rail, Phase 1)	111,111	1,444,445	1,555,556
Total Contracts Payable	$ 233,057	$ 2,513,874	$ 2,746,931

The annual debt service requirements to maturity for long-term contracts payable are as follows:

	Contracts Payable	
YEAR	Principal	Interest
2018	233,057	3,164
2019	233,486	2,734
2020	233,918	2,302
2021	234,353	1,868
2022	234,791	1,430
2023-2027	950,881	1,638
2028-2032	626,444	-
TOTALS	$ 2,746,930	$ 13,136

D. During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/17	Additions	Reductions	Ending Balance 12/31/17	Due Within One Year
GO Bonds Payable	$ 11,985,000	$ -	$ 1,565,000	$ 10,420,000	$ 1,725,000
Revenue Bonds Payable	-	-	-	-	-
Premiums	-	-	-	-	-
Discounts	(54,172)		(4,674)	(49,498)	(4,674)
Total Bonds Payable	11,930,828	-	1,560,326	10,370,502	1,720,326
Contracts Payable	2,979,560	-	232,629	2,746,931	233,057
Compensated Absences	719,379	473,908	455,153	738,134	174,589
Contingency Reserves	678,000	74,000	110,000	642,000	642,000
Unearned Lease Revenue	149,091	-	9,111	139,980	-
Net Pension Obligation	4,108,497	-	949,958	3,158,539	-
OPEB Obligations	1,125,540	224,454	24,648	1,325,346	-
TOTALS	$ 21,690,895	$ 772,362	$ 3,341,825	$ 19,121,432	$ 2,769,972

NOTE 8 - CONTINGENCIES AND LITIGATION

The Port of Grays Harbor has recorded in its financial statements all material liabilities, including an estimate for unresolved situations where, based on available information, management believes it is probable that the Port will have to make some payment. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims in excess of applicable deductible amounts.

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

The Port's contingent liabilities at December 31, 2017 totaled $642,000 consisting of $627,000 in environmental remedial obligations (see Note 10) and $15,000 in pending claims.

NOTE 9 - UNEARNED CREDITS

In accordance with generally accepted accounting principles, the Port has the following unearned receipts which will be amortized over the terms as noted:

Item Description	Issue Year	Amortization Method	Unamortized Amount 12/31/17
Prepaid lease revenue	1994	Straight-line, 50 year term	$ 44,981
Prepaid lease revenue	1994	Straight-line, 48 1/2 year term	102,766
Prepaid boat launch revenue	2001	Straight-line, 20 year term	1,344
Prepaid moorage revenue	2016	Straight-line, 1 year term	268,652
Prepaid lease revenue	2016	Straight-line, term varies Based on individual lease terms All 1 year or less	876,859
Total unearned credits			**$ 1,294,602**

NOTE 10 - ENVIRONMENTAL REMEDIATION OBLIGATIONS

Costs incurred for environmental remediation that extend the life, increase the capacity, or improve the safety or efficiency of property owned by the Port are capitalized. The Port expenses costs which do not meet these criteria and accrues for obligations associated with such environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change.

A. Chevron Oil Site (Westport, WA) – This site is currently and has been historically used by tenants operating a marine fuel facility. The private operators have been and continue to lead site review, monitoring and clean-up work. During 2014, it was determined that the Port is responsible for tank removal. During 2015, the Port's consultant developed a clean-up plan for tank removal with cost estimates of $358,000. The Port continues to negotiate with the private operator for the remaining clean-up costs prior to moving forward with the project. As of December 31, 2017, net costs totaling $358,000 have been accrued as a current liability for the Port to complete its responsibility for the tank removal.

B. Hungry Whale Site (Westport, WA) – This site is currently and has been historically used by tenants operating a vehicle fuel facility. During 2007, the Port of Grays Harbor, in cooperation with the Washington State Department of Ecology (DOE), completed an environmental site assessment and developed the phase 1 remediation plan. In 2016, the Port worked with DOE on an Updated Administrative Order which calls for additional monitoring and a Feasibility Study to determine current conditions and prepare a proposed Clean-up Action Plan with DOE. In 2017, the Port completed additional groundwater monitoring and developed a draft Remedial Investigation and Feasibility Study (RI/FS) and submitted it to Ecology for review. At the end of the year, the RI/FS continued to be under review. Site is capped with asphalt and the vehicle fuel station continues to operate. Estimated remedial liability is $53,000 in 2018 to monitor the site, finalize the feasibility study, and develop a draft cleanup action plan.

C. Faber & Sons Site (Elma, WA) – This site is located at the Satsop Business Park and was leased to a recycling company. The tenant abandoned the site in late-2013 and the Port took immediate steps to protect and clean the site. Project is in a final monitoring phase. During 2017 a modification of the monitoring program to conduct annual testing was approved by the Department of Ecology. $10,000 has been recorded as a contingent liability for continued monitoring in 2018.

D. 3115 Port Industrial Road (Hoquiam, WA) - The Port conducted phase I and II environmental assessments of this site during 2016. Historical site useage included gas and diesel storage. All tanks were previously removed by the tenant. The 2016 assessments found contamination in groundwater and soil locations, and monitoring wells were established. Groundwater monitoring and delineation activities will continue pending the outcome of a potential industrial development on the site. A contingent liability of $150,000 has been recorded for expected remediation activites under review with Washington State Department of Ecology.

E. Former Harbor Battery Site, 122 S Wooding Street (Aberdeen, WA) – The site was previously used for industrial purposes and currently listed by the Department of Ecology as historical assessments and samples of soil and ground water indicated contaminants were present above regulatory clean up levels. In 2017, the Port completed an environmental site assessment including the review of existing documentation, collection of soil samples, and the installation of monitoring wells for initial groundwater sampling. Lab results indicated that only one groundwater site had product above the cleanup action levels. A report was filed with Ecology and a program to monitor groundwater on a quarterly basis was established to meet Ecology requirements for issuing a letter of no further action which should be completed in 2019. The estimated remedial liability is $56,000 which has been recorded as a contingent liability as of December 31, 2017.

NOTE 11 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. The statement established standards for the measurement and recognition of “other post employment benefits” (OPEB).

A. Plan Description - The Port participates in the Public Employees Benefit Board (PEBB) health plan administered by the State of Washington Health Care Authority. It is a multiple employer plan which provides both active employee benefits and elective post employment benefits. Port retirees are eligible to participate in the group plan on a self-pay basis.

B. Funding Policy – Group premium rates are established by the PEBB and paid on a monthly basis by the Port based upon the established rates for its active employee membership. Retirees make premium payments on a self-pay basis. Blending retiree and active employee rates creates an implicit rate subsidy and future post-employment benefit liability. The Port has recorded its unfunded Net OPEB Obligation (NOO) in its financial statements.

C. OPEB Measurement Method - The Port used the alternative measurement method permitted under GASB Statement No. 45 for employers with fewer than one hundred plan members to determine the Actuarial Accrued Liability (AAL). A single retirement age of 62.4 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the Public Employee Retirement System Plan 2 rates used in the June 30, 2015 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 state-wide PEBB study performed in 2015. The results were based on group 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 Net OPEB Obligation (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.

D. OPEB Measurements and NOO Calculation – The net OPEB obligation (NOO) is updated periodically by the Port in accordance with GASB Statement No. 45. The Annual OPEB Cost and NOO as of December 31, 2017 is as follows:

Annual OPEB Cost	
Annual Required Contribution	$244,522
Net OPEB Obligation Interest	45,022
Net OPEB Obligation Amortization	(65,090)
Annual OPEB Cost	**$224,454**

Net OPEB Obligation (NOO)	
Starting NOO	$1,125,540
Annual OPEB Cost	224,454
Contributions	24,648
Net OPEB Obligation (NOO)	**$1,325,346**

NOTE 12 – ACCOUNTING AND REPORTING CHANGES

Change in Accounting Principle - The Port's accounting policy related to the capitalization of assets was changed effective January 1, 2017. The policy was modified to raise the capitalization threshold from $500 to $5,000 for assets acquired by the Port. Assets meeting the capitalization threshold are recorded on the Statement of Fund Net Position. Assets costing less than $5,000 are expensed and recorded on the Statement of Revenues, Expenses and Changes in Fund Net Position.

The policy was changed to improve efficiency of the Port's capital asset management systems, and conforms with financial and accounting best practice recommendations.

The change in accounting principle resulted in a reduction of $155,047 in the Port's beginning net position for 2017. The adjustment is reported on the Statement of Revenues, Expenses and Changes in Fund Net Position. See note 4.

NOTE 13 - UNIQUE AND UNUSUAL TRANSACTIONS

A. Major Receivables – In 2017, $15,427,197 (50.4%) of the Port's operating revenues were billed to three major customers.

B. Grays Harbor Navigation Improvement Project – The Port of Grays Harbor is the Local Sponsor of the Grays Harbor Navigation Channel (Channel). As Local Sponsor, the Port is responsible to participate with the U.S. Army Corps of Engineers (Corps) in funding improvments to the Channel.

In 2016, the Corps began construction work on the Grays Harbor Navigation Improvement Project (Project) to deepen the Channel from -36 feet to -38 feet. Total cost of the project is estimated by the Corps at $20 million of which the Port is obligated to fund 25% or $5 million dollars. Before construction began on the Project, the Port was required to transfer its share of the funding to the Corps. This prepayment, less the amount of Port funds expnded by the Corps on the Project, is included in prepaid expenses on the Statement of Fund Net Position.

The Corps reports regularly to the Port what amount of the Port's funds have been used. At that time, the Port reduces its prepayment balance and increases the Grays Harbor Navigation Channel Improvement Expense on the Statement of Revenues, Expenses and Changes in Fund Net Position under non-operating activities. During 2017, the Corps reported that $1,083,345 of the Ports funds on deposit had been expended.

The Washington State Legislature has appropriated $2.45 million of funding to reimburse the Port for a portion of the Local Sponsor share of the Project. As the Port funds are expended by the Corps, the Port records a receivable for the amount due from the State of Washington and a related increase in the Grays Harbor Navigation Channel Improvement Revenue on the Statement of Revenues, Expenses and Changes in Fund Net Position under non-operating activities. At December 31, 2017, funding of $1,083,345 was due from the State.

NOTE 14 – OTHER INFORMATION

A. Operating Divisions – The Port of Grays Harbor groups its operating activity into business divisions, each with identifiable operating revenues, operating expenses and capital assets as follows: marine terminals; marina; airport; industrial properties; Satsop Business Park, pilotage services; ship assist services and an rv park. Other assets, liabilities, net position, nonoperating revenues and nonoperating expenses are recorded on a Port-wide basis only, and are not identifiable to a particular division.

Operating division data for the year ended December 31, 2017 is presented below (in thousands):

	Marine Terminal	Properties	Satsop Business Park	Marina	Airport	Pilotage Services	Other	Total
NET CAPITAL ASSETS:								
Balance 1/1/2017	$ 43,762	$ 22,195	$ 50,606	$ 1,810	$ 1,015	$ 98	$ 2,714	$ 122,200
Adjustment for accounting change (Note 12)	$ (39)	$ (17)	$ (12)	$ (10)	$ (6)	$ (14)	$ (57)	(155)
Adjusted Balance 1/1/2017	$ 43,723	$ 22,178	$ 50,594	$ 1,800	$ 1,009	$ 84	$ 2,657	$ 122,045
Depreciation	(2,946)	(1,024)	(2,154)	(208)	(105)	(20)	(193)	(6,650)
Additions	848	257	218	1,007	-	46	16	2,392
Dispositions	-	-	-	(8)	-	-	-	(8)
Balance 12/31/2017	$ 41,625	$ 21,411	$ 48,658	$ 2,591	$ 904	$ 110	$ 2,480	$ 117,779
OPERATING ACTIVITY:								
Operating Revenues	$ 20,986	$ 2,626	$ 2,335	$ 1,148	$ 114	$ 1,621	$ 1,780	$ 30,610
Operating Expenses	(17,124)	(884)	(2,224)	(976)	(327)	(1,308)	(1,819)	(24,662)
General & Admin Expenses	(1,470)	(275)	(214)	(24)	(28)	(139)	(36)	(2,186)
Depreciation	(2,985)	(1,042)	(2,158)	(218)	(106)	(22)	(21)	(6,552)
Operating Income (Loss)	(593)	425	(2,261)	(70)	(347)	152	(96)	(2,790)
NON-OPERATING ACTIVITY:								
Tax Revenues	-	-	-	-	-	-	2,421	2,421
Capital Contributions	-	-	-	-	-	-	416	416
Non-operating Revenues (net of expenses)	-	-	-	-	-	-	43	43
NET INCOME (LOSS)	$ (593)	$ 425	$ (2,261)	$ (70)	$ (347)	$ 152	$ 2,784	$ 90

B. Fisheries Enhancement/Public Facilities – The Port conducts fishery enhancement activities (aka net pen projects) in Westport and provides public access facilities in Montesano, Hoquiam and Westport that do not generate revenues. In order to accurately report operational activities of the Port's business divisions, costs associated with these activities are reported as non-operating, including depreciation associated with the public access facilities' capital assets. For 2017, expenditures of $84,390 and depreciation expense of $105,840 were included in the total of $190,230.

C. Adjustment to Operating Expenses Reported on the Statement of Cash Flows – Election expenses and other non-operating expenses reported as non-operating on the Statement of Revenue, Expenses, and Changes in Net Position are more accurately reported as operating activities on the Statement of Cash Flows. For 2017, this consists of the following:

Fisheries Enhancement/Public Facilities	$190,230
Election Expenses	11,333
Other Non-Operating Expenses	245
Total	$201,808

NOTE 15 – SUBSEQUENT EVENT

In August of 2018, the Port of Grays Harbor was the high bidder for the former Washington State Department of Transportation's 520 Pontoon Construction Site located in Grays Harbor and adjacent to the Port's marine terminal cargo yard.

PORT OF GRAYS HARBOR
REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information (RSI) is an integral part of the accompanying financial statements. RSI generally includes schedules, statistical data, and other information.

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

As of June 30

Last 10 Fiscal Years*

	2015	2016	2017	2018-2024
PERS 1				
Employer's proportion of the net pension liability (asset) PERS 1	0.002496%	0.000226%	0.0%	
Employer's proportion of the net pension liability (asset) PERS 1 UAAL	0.036874%	0.034676%	0.034278%	
Employer's proportionate share of the net pension liability	$2,059,417	$1,874,402	$1,626,518	
Employer's covered employee payroll	$4,268,154	$4,167,271	$4,256,539	
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	48.25%	44.98%	38.21%	
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	
PERS 2/3				
Employer's proportion of the net pension liability (asset) PERS 2/3	0.047658%	0.044372%	0.044093%	
Employer's proportionate share of the net pension liability	$1,702,848	$2,234,095	$1,532,021	
Employer's covered employee payroll	$4,151,702	$4,086,937	$4,256,539	
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	41.02%	54.66%	35.99%	
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	

Notes to Schedules:

*Until a full 10-year trend is compiled, the Port will present information only for those years for which information is available.

SCHEDULES OF EMPLOYER CONTRIBUTIONS

As of December 31

Last 10 Fiscal Years*

	2015	2016	2017	2018-2024
PERS 1				
Statutorily or contractually required contributions	$100,826	$99,619	$113,920	
Contributions in relation to the statutorily or contractually required contributions	$(100,826)	$(99,619)	$(113,920)	
Contribution deficiency (excess)	$0	$0	$0	
Covered employer payroll	$4,167,271	$4,163,901	$4,382,453	
Contributions as a percentage of covered employee payroll	2.42%	2.39%	2.60%	
PERS 2/3				
Statutorily or contractually required contributions	$130,338	$130,110	$169,635	
Contributions in relation to the statutorily or contractually required contributions	$(130,338)	$(130,110)	$(169,635)	
Contribution deficiency (excess)	$0	$0	$0	
Covered employer payroll	$4,142,990	$4,163,901	$4,382,453	
Contributions as a percentage of covered employee payroll	3.15%	3.12%	3.87%	

Notes to Schedules:

*Until a full 10-year trend is compiled, the Port will present information only for those years for which information is available.

SCHEDULE OF FUNDING PROGRESS

Other Post Employment Benefits (OPEB)

As of December 31

Year	Actuarial Value of 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)
2015	$0	$2,435,766	$2,435,766	0	$4,167,271	58.4%
2016	$0	$2,238,728	$2,238,728	0	$4,163,901	53.8%
2017	$0	$2,005,232	$2,005,232	0	$4,382,453	45.8%

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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