



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

**Financial Statements Audit Report**  
**Port of Kingston**

**For the period January 1, 2017 through December 31, 2018**

**Published December 26, 2019**

**Report No. 1025453**





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

December 26, 2019

Board of Commissioners  
Port of Kingston  
Kingston, Washington

**Report on Financial Statements**

Please find attached our report on the Port of Kingston'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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**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 Kingston  
January 1, 2017 through December 31, 2018**

Board of Commissioners  
Port of Kingston  
Kingston, 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 Kingston, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated December 17, 2019.

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

In addition, we noted certain matters that we have reported to the management of the Port in a separate letter dated December 17, 2019.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

December 17, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Port of Kingston January 1, 2017 through December 31, 2018

Board of Commissioners  
Port of Kingston  
Kingston, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Kingston, for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed on page 11.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

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

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Port of Kingston, and its changes in cash and investments, for the years ended December 31, 2018 and 2017, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

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



## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port of Kingston, as of December 31, 2018 and 2017, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Other Matters**

### ***Supplementary and Other Information***

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2019 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy

State Auditor

Olympia, WA

December 17, 2019

## **FINANCIAL SECTION**

### **Port of Kingston January 1, 2017 through December 31, 2018**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2018

Fund Resources and Uses Arising from Cash Transactions – 2017

Notes to Financial Statements – 2018

Notes to Financial Statements – 2017

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2018

Schedule of Liabilities – 2017

**Port of Kingston  
Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 2018**

**Beginning Cash and Investments**

30810	Reserved	1,974,858
30880	Unreserved	179,901
388 / 588	Prior Period Adjustments, Net	-

**Revenues**

310	Taxes	199,811
320	Licenses and Permits	-
330	Intergovernmental Revenues	36,541
340	Charges for Goods and Services	1,763,691
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,920,826
Total Revenues:		3,920,869

**Expenditures**

540	Transportation	3,108,994
Total Expenditures:		3,108,994
Excess (Deficiency) Revenues over Expenditures:		811,875

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	332,320
381, 395, 398	Other Resources	232,500
Total Other Increases in Fund Resources:		564,820

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	2,282,266
591-593, 599	Debt Service	90,683
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	326,550
Total Other Decreases in Fund Resources:		2,699,499

**Increase (Decrease) in Cash and Investments: (1,322,804)**

**Ending Cash and Investments**

5081000	Reserved	694,790
5088000	Unreserved	137,165
<b>Total Ending Cash and Investments</b>		<b>831,955</b>

*The accompanying notes are an integral part of this statement.*

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

**Beginning Cash and Investments**

30810	Reserved	2,267,907
30880	Unreserved	178,996
388 / 588	Prior Period Adjustments, Net	-

**Revenues**

310	Taxes	194,817
320	Licenses and Permits	-
330	Intergovernmental Revenues	37,099
340	Charges for Goods and Services	1,427,808
350	Fines and Penalties	-
360	Miscellaneous Revenues	536,710
Total Revenues:		2,196,434

**Expenditures**

540	Transportation	1,948,083
Total Expenditures:		1,948,083
Excess (Deficiency) Revenues over Expenditures:		248,352

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	1,000,000
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	288,805
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		1,288,805

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	1,366,055
591-593, 599	Debt Service	12,028
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	451,217
Total Other Decreases in Fund Resources:		1,829,300

**Increase (Decrease) in Cash and Investments: (292,143)**

**Ending Cash and Investments**

5081000	Reserved	1,974,858
5088000	Unreserved	179,901
<b>Total Ending Cash and Investments</b>		<b>2,154,759</b>

*The accompanying notes are an integral part of this statement.*

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Port of Kingston was incorporated in 1919 and operates under the laws of the State of Washington applicable to a Port district. The Port is a special purpose government and provides marina and related facilities to the general public and is supported primarily through user charges.

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

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

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues, and expenditures. The government’s resources are allocated to and accounted for in individual funds depending on their intended purpose. The accounts of the Port are maintained on the basis of funds. For reporting purposes, the activities of all the Port’s funds are combined.

**B. Basis of Accounting and Measurement Focus**

Financial statements are prepared using the cash basis of accounting and measurements focus. Revenues are recognized when cash is received, and expenses are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs, and minor renewals are accounted for as expenses when paid.

**C. Cash and Investments**

It is the Port’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds. The amount is included on the statement of revenues and expenses arising from cash transactions as cash and investments.

All deposits and certificates of deposits are covered by the Federal Deposit Insurance Corporation and/or Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Local Government Investment Pool (LGIP) or its agent in the government’s name.

Investments are reported at original cost. Investments by type at December 31, 2018 are as follows:

Local Government Investment Pool	\$ <u>806,873</u>
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**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Capital Assets**

Capital assets are assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

**E. Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Vacation pay, which may be accumulated up to a maximum of 160 hours (240 hours for those employees hired before April 1, 2011), is payable upon resignation, termination, retirement, or death. Sick leave has no limit as to how many hours may be accumulated; however, upon termination of employment, eligible employees will be compensated for unused sick leave at the current rate of pay for hours up to 360 hours; all sick leave hours beyond 360 hours will be paid at 25% of the employee’s current hourly rate of compensation. Payments are recognized as expenditures when paid.

**F. Long-Term Debt**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port’s debt transactions for year ended December 31, 2018.

The debt service requirements for limited general obligation bonds are as follows:

<b>Year(s)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 57,500	\$ 28,063	\$ 85,563
2020	59,500	26,860	86,360
2021	60,000	25,514	85,514
2022	61,000	24,035	85,035
2023	62,000	22,420	84,420
2024-2028	327,500	80,679	408,179
2029-2032	309,500	25,810	335,310
<b>TOTALS</b>	<b>\$ 937,000</b>	<b>\$233,381</b>	<b>\$1,170,381</b>

**G. Reserved Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by The Port of Kingston Commissioners. When expenditures that meet restrictions are incurred, the Port of Kingston intends to use reserved resources first before using unreserved amount.

Reservations of Ending Cash and Investments consist of \$694,790.

**H. Risk Management**

The Port of Kingston is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 549 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.

**PORT OF KINGSTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions 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.

Enduris did not have any claim settlements that exceeded limits in the last three years.

**NOTE 2 – BUDGET COMPLIANCE**

**A. Budgets**

The Port of Kingston adopts annual appropriated budgets. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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



**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 2 – BUDGET COMPLIANCE (Continued)**

For budgeting purposes all expenditures are accounted for in the general fund.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

<b>Fund/Department</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
<b>General Fund:</b>			
<b>Transportation Department</b>	<b>\$ 1,942,192</b>	<b>\$ 3,108,994</b>	<b>\$ (1,166,802)</b>
<b>Capital Expenditures Department</b>	<b>1,385,000</b>	<b>2,282,266</b>	<b>(897,266)</b>
<b>Debt Service Department</b>	<b>87,257</b>	<b>90,683</b>	<b>(3,426)</b>
<b>Total General Fund</b>	<b>\$ 3,414,449</b>	<b>\$ 5,481,943</b>	<b>\$ (2,067,494)</b>

Budgeted amounts are authorized to be transferred between departments within any fund/object class within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Port of Kingston’s legislative body.

**NOTE 3 – PROPERTY TAXES**

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed (at/after) the end of each month to the Port by the County Treasurer.

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

The Port may levy up to \$.45 per \$1,000 of assessed valuation for general government services. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

Special levies approved by the voters are not subject to the above limitations.

The Port’s regular levy for 2018 was \$.198864 per \$1,000 on an assessed valuation of \$1,006,567,392 for a total regular levy of \$200,356.

**NOTE 4 – CONTINGENCIES AND LITIGATION**

In the opinion of management, the Port (insurance policies and/or self-insurance reserves) are adequate to pay all known or pending claims.

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

Port of Kingston incurred a payout to the Federal Transit Authority for \$468,000 (amount owed after the sale of capital assets (passenger vessel) in the amount of \$232,500).

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 4 – CONTINGENCIES AND LITIGATION (CONTINUED)**

Port of Kingston incurred a loss for a lawsuit settlement Case No. 15-2-01373-6 & 16-2-00060-8; in the amount of \$252,000 written on March 6, 2018.

The Port of Kingston terminated an employee in September 2015 for misconduct in the course of employment. A lawsuit was filed in April 2016 with Case No. 16-2-00669-0. This Port incurred a loss for this lawsuit in the amount of \$60,000 and the lawsuit was closed on June 6, 2018.

Port of Kingston incurred loss of \$9,004 for property damage from a truck that ran into the district's "Port of Kingston" sign.

**NOTE 6 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 10, 2019, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

**NOTE 7 – POLLUTION REMEDIATION OBLIGATION AND MARINA REHABILITATION FUND**

In November 2006, the Government Accounting Standards Board issued GASB No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007.

The Port's property has known underground contaminants resulting from the presence of a former underground fuel storage tank. The site is listed by the Department of Ecology as a Voluntary Cleanup Site. The governmental agencies having jurisdiction over the property are not requiring remediation of the site or removal of contaminated soil at this time, but such action will likely be required in the future if the property is developed further. The Port has established a fund named Marina Rehabilitation/Mitigation Reserve Fund and funded \$87,000 on April 24, 2012, to cover those estimated costs.

The Port established a designated investment fund to cover the cost of marina replacement in the future. The fund was initially established at \$1,500,000 and \$210,000 per year is required to be transferred into the account annually. At December 31, 2018, the balance of the fund was \$694,790 and is included in Port investments discussed in Note 1. The balance includes \$87,000 discussed above.

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 8 – PENSION PLANS**

Substantially all Port’s full-time and qualifying part-time employees participate in 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 or Public Employees Retirement Plans (PERS) 1, 2, and 3.

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

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

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2018 (the measurement date of the plans), the Port’s proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.003445%	\$153,855
PERS 2/3	.004444%	\$ 75,877

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Port of Kingston was incorporated in 1919 and operates under the laws of the State of Washington applicable to a Port district. The Port is a special purpose government and provides marina and related facilities to the general public and is supported primarily through user charges.

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

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

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues, and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. The accounts of the Port are maintained on the basis of funds. For reporting purposes, the activities of all the Port's funds are combined.

**B. Basis of Accounting and Measurement Focus**

Financial statements are prepared using the cash basis of accounting and measurements focus. Revenues are recognized when cash is received, and expenses are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs, and minor renewals are accounted for as expenses when paid.

**C. Budgets**

The Port of Kingston adopts annual appropriated budgets. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

Budgeted amounts are authorized to be transferred between departments within any fund/object class within departments; however, any revisions that alter the total expenditures of a fund, or that

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Port of Kingston's legislative body.

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Marina	\$ 883,449	\$ 869,142	\$ 14,307
Parking	\$ 231,512	\$ 277,743	\$ (46,231)
Leases	\$ 260,877	\$ 236,208	\$ 24,669
Fuel Sales	\$ 102,838	\$ 53,593	\$ 49,245
Retail Sales	\$ 1,731	\$ 1,214	\$ 517
Total General Fund	\$ 1,480,407	\$ 1,437,900	\$ 42,507

**D. Cash and Investments**

It is the Port's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds. The amount is included on the statement of revenues and expenses arising from cash transactions as cash and investments.

All deposits and certificates of deposits are covered by the Federal Deposit Insurance Corporation and/or Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Local Government Investment Pool (LGIP) or its agent in the government's name.

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

Local Government Investment Pool	<u>\$2,154,759</u>
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**E. Capital Assets**

Capital assets are assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Vacation pay, which may be accumulated up to a maximum of 160 hours (240 hours for those employees hired before April 1, 2011), is payable upon resignation, termination, retirement, or death. Sick leave has no limit as to how many hours may be accumulated; however, upon termination of employment, eligible employees will be compensated for unused sick leave at the current rate of pay for hours up to 360 hours; all sick leave hours beyond 360 hours will be paid at 25% of the employee's current hourly rate of compensation. Payments are recognized as expenditures when paid.

Capital assets are assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

**G. Long-Term Debt**

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

The debt service requirements for limited general obligation bonds are as follows:

<b>Year(s)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 63,000	\$ 19,350	\$ 82,350
2019	57,500	28,063	85,563
2020	59,500	26,860	86,360
2021	60,000	25,514	85,514
2022	61,000	24,035	85,035
2023-2027	321,000	93,488	414,488
2028-2032	378,000	37,863	415,863
<b>TOTALS</b>	<b>\$1,000,000</b>	<b>\$255,173</b>	<b>\$1,255,173</b>

**H. Risk Management**

The Port of Kingston is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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.

**I. Reserved Portion of Ending Cash and Investments**

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

Reservations of Ending Cash and Investments consist of \$1,974,858.

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 2 - PROPERTY TAXES**

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed (at/after) the end of each month to the Port by the County Treasurer.

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

The Port may levy up to \$.45 per \$1,000 of assessed valuation for general government services. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

Special levies approved by the voters are not subject to the above limitations.

The Port's regular levy for 2017 was \$.206420 per \$1,000 on an assessed valuation of \$944,030,218 for a total regular levy of \$195,141.

**NOTE 3 - CONSTRUCTION COMMITMENT**

The Port has active construction projects as of December 31, 2017. The projects include: covered moorage replacement and Washington Blvd Park.

At year-end the district's commitments with contractors are as follows:

<b>Projects</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Covered Moorage	\$ 1,060 920	\$ 253 627
Washington Blvd Park	49 585	375 415
	\$ 1,110,505	\$ 629,042

Of the committed balance of \$629,042 the Port will receive a grant for \$400,000 from Washington State Recreation and Conservation Office (RCO) for the Washington Blvd Park Project.

**NOTE 4 - CONTINGENCIES AND LITIGATION**

In the opinion of management, the Port (insurance policies and/or self-insurance reserves) are adequate to pay all known or pending claims.

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



**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 4 - CONTINGENCIES AND LITIGATION (continued)**

The passenger only ferry operations were discontinued on September 28, 2012. Two ferries were purchased using Federal Transportation Agency (FTA) Funds. Under the terms of the agreement, the Port is obligated to pay the FTA if the ferries are not used in a mass transit capacity either by the Port or a FTA assignee. One of the ferries was transferred to a FTA assignee, King County, on March 25, 2013. However, the last ferry, the "Express" was not sold until January 12, 2018 to a private party for \$232,500. The Port paid the FTA \$468,000 on February 28, 2018 for the Express.

The Port of Kingston has gone through three lawsuits involving violations of the Public Records Act. One lawsuit, Case No. 152-2-01482-1, was settled on February 17, 2017 and had a judgement of \$166,416. The two other lawsuits, Case No. 15-2-01373-6 & 16-2-00060-8, were settled out of court in the amount of \$252,000 on March 6, 2018.

The Port of Kingston terminated an employee in September 2015 for misconduct in the course of employment. A lawsuit was filed in April 2016 with Case No. 16-2-00669-0, as of the date of this report, this case is currently in the discovery phase. The trial is scheduled for November 6, 2018.

**NOTE 5 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 23, 2018, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

**NOTE 6 - POLLUTION REMEDIATION OBLIGATION AND MARINA REHABILITATION FUND**

In November 2006, the Government Accounting Standards Board issued GASB No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007.

The Port's property has known underground contaminants resulting from the presence of a former underground fuel storage tank. The site is listed by the Department of Ecology as a Voluntary Cleanup Site. The governmental agencies having jurisdiction over the property are not requiring remediation of the site or removal of contaminated soil at this time, but such action will likely be required in the future if the property is developed further. The Port has established a fund named Marina Rehabilitation/Mitigation Reserve Fund and funded \$87,000 on April 24, 2012, to cover those estimated costs.

The Port established a designated investment fund to cover the cost of marina replacement in the future. The fund was initially established at \$1,500,000 and \$210,000 per year is required to be transferred into the account annually. At December 31, 2017, the balance of the fund was \$1,974,858 and is included in Port investments discussed in Note 1. The balance includes \$87,000 discussed above.

**PORT OF KINGSTON  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 7 - PENSION PLANS**

Substantially all Port's full-time and qualifying part-time employees participate in 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 or Public Employees Retirement Plans (PERS) 1, 2, and 3.

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

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

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

Department of Retirement  
Systems Communications Unit  
**P.O. Box 48380**  
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

	Allocation %	Liability (Asset)
PERS 1	.003796%	\$180 123
PERS 2/3	.004883%	\$169,661

**Port of Kingston  
Schedule of Liabilities  
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
251.41	Non-Voted G.O. Bond	12/1/2032	1,000,000	-	63,000	937,000
	<b>Total General Obligation Debt/Liabilities:</b>		<b>1,000,000</b>	<b>-</b>	<b>63,000</b>	<b>937,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.97	Environmental Liabilities		87,000	-	-	87,000
264.30	Pension Liabilities		349,784	-	120,052	229,732
259.12	Compensated Absences		69,468	12,533	-	82,001
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>506,252</b>	<b>12,533</b>	<b>120,052</b>	<b>398,733</b>
	<b>Total Liabilities:</b>		<b>1,506,252</b>	<b>12,533</b>	<b>183,052</b>	<b>1,335,733</b>

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
251.41	Non-Voted G.O. Bond	12/1/2032	-	1,000,000	-	1,000,000
	<b>Total General Obligation Debt/Liabilities:</b>		<b>-</b>	<b>1,000,000</b>	<b>-</b>	<b>1,000,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.97	Environmental Liabilities		87,000	-	-	87,000
264.30	Pension Liabilities		386,222	-	36,438	349,784
259.12	Compensated Absences		49,611	19,857	-	69,468
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>522,833</b>	<b>19,857</b>	<b>36,438</b>	<b>506,252</b>
	<b>Total Liabilities:</b>		<b>522,833</b>	<b>1,019,857</b>	<b>36,438</b>	<b>1,506,252</b>

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>