



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Shelton

For the period January 1, 2019 through December 31, 2020

Published November 22, 2021

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

November 22, 2021

Board of Commissioners
Port of Shelton
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Shelton's financial statements and compliance with federal laws and regulations.

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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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Shelton January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Port of Shelton are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the Port’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Port.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Port’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Port did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Port of Shelton January 1, 2019 through December 31, 2020

Board of Commissioners
Port of Shelton
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Shelton, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated November 16, 2021.

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 state law 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.

As discussed in Note 5 to the 2019 financial statements, during the year ended December 31, 2019, the Port adopted new accounting guidance for the presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

As discussed in Note 8 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown.

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.

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

November 16, 2021

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Port of Shelton January 1, 2020 through December 31, 2020

Board of Commissioners
Port of Shelton
Shelton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Shelton, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2020. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 style with a large, stylized "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

November 16, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Port of Shelton January 1, 2019 through December 31, 2020

Board of Commissioners
Port of Shelton
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Shelton, for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed on page 16.

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 state law 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 Shelton has prepared these financial statements to meet the financial reporting requirements of state law 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 Shelton, and its changes in cash and investments, for the years ended December 31, 2020 and 2019, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port of Shelton, as of December 31, 2020 and 2019, or the changes in financial position or cash flows thereof 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.

Matters of Emphasis

As discussed in Note 5 to the 2019 financial statements, during the year ended December 31, 2019, the Port adopted new accounting guidance for presentation and disclosure of postemployment

benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 8 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown. Our opinion is not modified with respect to this matter.

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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedules of Liabilities are also 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 November 16, 2021 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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

November 16, 2021

FINANCIAL SECTION

Port of Shelton January 1, 2019 through December 31, 2020

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2020
Fund Resources and Uses Arising from Cash Transactions – 2019
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SUPPLEMENTARY AND OTHER INFORMATION

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Schedule of Liabilities – 2019
Schedule of Expenditures of Federal Awards – 2020
Notes to the Schedule of Expenditures of Federal Awards – 2020

Port of Shelton
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

Beginning Cash and Investments

308	Beginning Cash and Investments	4,793,677
388 / 588	Net Adjustments	-

Revenues

310	Taxes	804,309
320	Licenses and Permits	-
330	Intergovernmental Revenues	2,770,823
340	Charges for Goods and Services	1,777,477
350	Fines and Penalties	-
360	Miscellaneous Revenues	29,258
Total Revenues:		5,381,867

Expenditures

540	Transportation	1,565,856
Total Expenditures:		1,565,856
Excess (Deficiency) Revenues over Expenditures:		3,816,011

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	309,212
Total Other Increases in Fund Resources:		309,212

Other Decreases in Fund Resources

594-595	Capital Expenditures	3,515,103
591-593, 599	Debt Service	318,849
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	214,206
Total Other Decreases in Fund Resources:		4,048,158

Increase (Decrease) in Cash and Investments: 77,065

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	4,870,742
50891	Unassigned	-
Total Ending Cash and Investments		4,870,742

Port of Shelton
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

Beginning Cash and Investments

30810	Reserved	255,423
30880	Unreserved	4,498,510
388 / 588	Net Adjustments	-

Revenues

310	Taxes	777,295
320	Licenses and Permits	-
330	Intergovernmental Revenues	422,973
340	Charges for Goods and Services	1,667,893
350	Fines and Penalties	-
360	Miscellaneous Revenues	76,376
Total Revenues:		2,944,537

Expenditures

540	Transportation	1,911,314
Total Expenditures:		1,911,314
Excess (Deficiency) Revenues over Expenditures:		1,033,223

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	194,220
381, 382, 395, 398	Other Resources	560,687
Total Other Increases in Fund Resources:		754,907

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,202,644
591-593, 599	Debt Service	323,616
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	193,262
581, 582	Other Uses	28,864
Total Other Decreases in Fund Resources:		1,748,386

Increase (Decrease) in Cash and Investments: 39,744

Ending Cash and Investments

5081000	Reserved	255,423
5088000	Unreserved	4,538,254
Total Ending Cash and Investments		4,793,677

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

Basis of Accounting and Reporting

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

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

A. Fund Accounting

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

PROPRIETARY FUND TYPE

Enterprise Fund

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

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

B. Basis of Accounting and Measurement Focus

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

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

D. Capital Assets - See Note 8, Capital Assets.

E. Compensated Absences

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

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

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

The total compensated absences balance was \$39,968 at December 31, 2020. See *Schedule of Liabilities* (Schedule 09).

F. Long-Term Debt - See Note 4, Long-Term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

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

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS:

Investments are reported at original cost, unless indicated otherwise. Deposits and investments by type at December 31, 2020 are as follows:

<u>Type of Deposit or Investment</u>	<u>Port's Own Deposits and Investments Total</u>
Bank Deposits	\$ 881,791
Heritage Bank Public Now Invest	826,341
Local Government Investment Pool (LGIP)	<u>3,162,610</u>
Total	\$ <u>4,870,742</u>

It is the Port's policy to invest all temporary cash surpluses. The interest on these investments is recorded in the Port's General Fund. The investments in the LGIP are classified as cash equivalents. Within the investment accounts, the Port internally maintains segregated subaccounts to reflect any balances in restricted, committed, assigned and unassigned accounts. All deposits and investments are insured, registered or held by the Port or its agent in the government's name. See Note 1C, Cash and Investments.

Deposits

The carrying amount of the Port's cash deposits with financial institutions was \$873,324 held at Heritage Bank and \$8,467 temporarily held at the Mason County Treasurer's Office, for a total carrying value of \$881,791 at December 31, 2020, of which \$881,791 was assigned.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Port would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The Port's deposits are mostly covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

The carrying amount of the Port's investments was \$826,341 held at Heritage Bank Public Now Invest and \$3,162,610 held at LGIP for a total carrying value of \$3,988,951 at December 31, 2020, of which \$3,988,951 was assigned.

The total carrying amount of cash deposits and investments was \$4,870,742 at December 31, 2020, of which \$4,870,742 was assigned.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

Investments, Continued

The Port is a voluntary participant in the LGIP, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

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

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

NOTE 3 - PROPERTY TAX:

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

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

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

The Port's regular levy for 2020 was \$0.3102526 per \$1,000 on a total assessed valuation of \$2,562,949,314 for a total regular levy of \$795,162.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 4 - LONG-TERM DEBT:

Debt Service

The Port issues General Obligation (G.O.) bonds to finance the acquisition and construction of capital assets. The Port is also liable for subordinated interagency Washington State Community Economic Revitalization Board (CERB) loans and Washington State Department of Health loans. See Note 1F, Long-Term Debt.

The accompanying *Schedule of Liabilities* (Schedule 09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for the year ended December 31, 2020.

The debt service requirements for G.O. bonds and subordinated interagency loans at December 31, 2020 are as follows:

Year ending December 31	Principal	Interest	Total
2021	\$ 262,701	\$ 40,502	\$ 303,203
2022	277,985	30,268	308,253
2023	288,273	19,556	307,829
2024	153,565	11,674	165,239
2025	106,924	6,733	113,657
2026 - 2030	114,213	18,452	132,665
2031 - 2035	122,263	10,401	132,664
2036 - 2040	<u>77,460</u>	<u>2,138</u>	<u>79,598</u>
Totals	\$ <u>1,403,384</u>	\$ <u>139,724</u>	\$ <u>1,543,108</u>

NOTE 5 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - OPEB PLANS:

The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

The Port had nine (9) active plan members and two (2) retired plan members as of December 31, 2020. As of December 31, 2020, the Port's total OPEB liability was \$513,485 as calculated using the alternative measurement method. The Port contributed \$68,583 to the plan for the year ended December 31, 2020. See *Schedule of Liabilities* (Schedule 09).

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 6 - PENSION PLANS:

State Sponsored Pension Plans

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

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

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

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

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

At June 30, 2020 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the *Schedule of Liabilities* (Schedule 09), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$25,819	0.003562%	\$125,758
PERS 2/3	\$42,764	0.004642%	\$ 59,369

NOTE 7 - RISK MANAGEMENT:

Port of Shelton is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW5, Chapter 200-100 WAC, and Chapter 39.34 RCW when 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, 2020, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 7 - RISK MANAGEMENT, CONTINUED:

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

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a 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 \$800 million 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 remain in the Pool for a minimum of one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

The Pool is governed by a Board of Directors consisting of seven (7) board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded the limits in the last three (3) years.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES:

Capital Assets

Capital assets, including major repairs, are assets with an initial individual cost of \$3,000 or more and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased. See Note 1D, Capital Assets.

During 2020, the Port incurred the various transactions affecting its capital assets, including the following:

In 2020, the Port completed the majority of the Sanderson Field pavement overlay and taxiway lighting project, primarily funded by FAA and WSDOT grants. See Note 8, Grants, Construction Commitments and Subsequent Events.

Grants

In 2019, the Federal Aviation Administration (FAA) and the Washington State Department of Transportation (WSDOT) awarded the Port grants for the construction of a Sanderson Field airport runway pavement overlay and taxiway lighting project. The entire project is estimated to be approximately \$3,469,647, of which portions of the project will be funded from 100% discretionary FAA funds without a match requirement and a portion of the project will be funded from FAA Airport Improvement Program (AIP) funding with 90% coverage and from a WSDOT grant with a 5% match up to a \$150,000 cap. See Note 8, Capital Assets, Construction Commitments, Subsequent Events and *Schedule of Expenditures of Federal Awards* (Schedule 16).

In 2017, CERB notified the Port that they had been approved for a Committed Private Partner Program grant/loan for a public facilities project consisting of a \$300,000 loan, \$300,000 grant and a \$150,000 Port match, for a total project cost of \$750,000 for a tenant at Johns Prairie consisting of a roof and infrastructure improvements. The Port executed a contract with CERB on August 28, 2017 and the Port has four (4) years to complete the work. By December 31, 2017, the Port completed the match and loan portion of the project and is working on the grant portion of the project. The Port incurred \$130,200 of eligible expenditures through 2020, under the grant portion and has been reimbursed by CERB, leaving an additional \$169,800 available under the grant. In 2020, the Port worked with the CERB staff to take an amended scope of work to the CERB board for a change in address and additional time to complete the contract at Johns Prairie. See Note 8, Contingencies and Litigation, Construction Commitments and Subsequent Events, *Schedule of Liabilities* (Schedule 09).

In 2018, CERB notified the Port that they had been approved for a Committed Private Partner Program grant/loan for the construction of a 30,000 square foot building for an existing tenant, consisting of a \$1,000,000 loan, a \$1,000,000 grant and a \$500,000 Port match for a total project cost of \$2,500,000. The Port selected a consultant through a Request for Proposal (RFP) process and is working with the tenant on building and site requirements. See Note 8, Construction Commitments and Subsequent Events.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Grants, Continued

On May 19, 2020, the Port and the Port's General Counsel submitted to the FAA a signed FAA CARES Act Agreement between the FAA and the Port of Shelton, which provides for airport related grant funding of up to \$30,000 for future airport related projects. See Note 8, Subsequent Events.

Grant expenditures include amounts owing to the Port for eligible expenditures incurred in 2020.

Contingencies and Litigation

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

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

Contingencies and Litigation - FAA and WSDOT Recoverable Grants

The Port received a recoverable grant via the receipt of Sanderson Field Airport (SF) and its associated land when it had been decommissioned after World War II. Various usage requirements run with the airport. Any sale of any portion of SF would first have to obtain approval by the FAA and WSDOT, and then potentially from 90% to 100% of the sale proceeds may be required to be remitted back to the FAA and WSDOT. The Port continues to invest in SF. The FAA and WSDOT continue to provide grants for a portion of the SF improvements. The period of recoverability of the donated land to the Port is for the lifetime of SF. The minimum recoverability exposure is the entire SF, indefinitely. A current value of SF has not been determined.

The Port has received multiple recoverable grants from the FAA AIP for multiple years, which average 90% of \$150,000 a year. The grants have included the design, planning, engineering and construction of various airport assets. The FAA has also awarded 100% discretionary grants to the Port over the years for larger projects that do not have a Port or WSDOT match.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued

Contingencies and Litigation - FAA and WSDOT Recoverable Grants, Continued

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

The Port has received FAA aviation grant funds through 2020. As such, the current period of recoverability extends through 2040 with the exception for the real property, which has no time limit. The FAA grants were included in Intergovernmental Revenues grant funds for each year received. A complete list of recoverable grants is maintained by the Port. See *Schedule of Expenditures of Federal Awards* (Schedule 16) for each year for the amounts of FAA grants incurred.

The Port has received multiple recoverable grants from the WSDOT Aviation Airport Aid Program over the years. The grants primarily have been structured to be a 5% match to the airport grants from the FAA's AIP. The WSDOT grants require that the airport remain open for the expected life of twenty (20) years; otherwise 100% of the grant funding must be returned within thirty (30) days of closure, sale, or discontinuance of service. The Port has received WSDOT aviation grant funds through 2020. As such, the current period of recoverability extends through 2040. The WSDOT grants were included in Intergovernmental Revenues grant funds for each year received. The majority of the grants from WSDOT have been 5% of the FAA \$150,000 a year AIP grants. A complete list of recoverable grants is maintained by the Port. See *Schedule of Financial Assistance* (Schedule 15) for each year for the amounts of WSDOT grants incurred.

Contingencies and Litigation - CERB Committed Private Partner Program Recoverable Grants

In 2017, the Port received a \$300,000 loan and a \$300,000 recoverable grant from CERB for a Committed Private Partner Program grant/loan for a public facilities project for a tenant at Johns Prairie and a \$160,000 loan and a \$160,000 recoverable grant from CERB for a Committed Private Partner Program grant/loan for a public facilities project for a tenant at Johns Prairie. The CERB terms state that in the event that the Port fails to perform the work or otherwise carry out its duties under these contracts in accordance with state laws, federal laws, and/or the provisions of these contracts, the Board reserves the right to recapture funds in an amount to compensate the Board for the noncompliance in addition to any other remedies available at law or in equity.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued

Contingencies and Litigation - CERB Committed Private Partner Program Recoverable Grants, Continued

The minimum recoverability exposure of these CERB grants/loans are \$600,000 and \$320,000, respectively, once all of the loan and grant reimbursements have been received plus additional amounts, including interest through 2044, six (6) years after the last payment date of July 31, 2038. See Note 8, Construction Commitments, Subsequent Events, *Schedule of Liabilities* (Schedule 09) and *Schedule of State Financial Assistance* (Schedule 15).

See Note 8, Grants, Construction Commitments and Subsequent Events.

Stewardship, Compliance and Accountability

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

Significant Commitments or Obligations

Construction Commitments

The Port has active construction projects as of December 31, 2020. The projects include:

<u>Project</u>	<u>Spent To-Date</u>	<u>Remaining Commitment</u>
Sanderson Field		
SF runway paving construction *	\$ 3,423,311	\$ 137,214
SF obstruction removal	70,164	11,135
SF reservoir vents replacement	38,927	3,413
SF hangars environmental & water	<u>19,291</u>	<u>50,686</u>
Total Sanderson Field	<u>3,551,693</u>	<u>202,448</u>
Johns Prairie		
JP infrastructure improvements **	146,686	153,314
JP building sprinkler system	298,023	29,810
JP new building ***	37,054	2,500,657
JP reservoir vents replacement	19,464	1,707
JP shed external walls & electricity	<u>4,110</u>	<u>278,788</u>
Total Johns Prairie	<u>505,337</u>	<u>2,964,276</u>
Total Construction Commitments	\$ <u>4,057,030</u>	\$ <u>3,166,724</u>

* 95% reimbursable (excluding staff time) by FAA/WSDOT

** Partially reimbursable by CERB loans/grants

*** Commitment funded by approved \$1.5m CERB loan, \$0.5m CERB grant and \$0.5m match

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Significant Commitments or Obligations, Continued

Construction Commitments, Continued

The remaining construction commitments not designated above will be funded from Port funds. See Note 8, Subsequent Events. The project expenditures for the Port's pollution remediation are disclosed in Note 8, Grants, Pollution Remediation, Subsequent Events and *Schedule of Liabilities* (Schedule 09).

Pollution Remediation

On April 23, 2014, the Port received written notification dated April 17, 2014 from the Department of Ecology (DOE) that one of the Port's properties in Johns Prairie was subject to a clean-up process resulting from a former Port tenant. On August 24, 2014, the Port entered into a Voluntary Clean-up Program with DOE for this site. The Port has had the site tested for potential contaminants in 2014, 2015 and 2018. The Port has been working with DOE and has provided the results of the tests to DOE. The Port requested a No Further Action (NFA) letter on the site. DOE asked for an additional investigation of this site prior to issuing a NFA letter. The Port worked with CDM Smith, Inc. (CDM Smith), an environmental firm, to assist in providing the additional information being requested by DOE. On October 16, 2018, the Port passed Resolution 18-09, Emergency Action for clean-up of the existing site at Johns Prairie to move forward with the proper disposal of contaminated soils. Previously, the Port incurred approximately \$10,000 of investigation costs for this site. In working with DOE in 2018, the Port estimated total remaining clean-up costs to be \$260,232, of which \$123,232 was incurred in 2018 and \$105,384 was incurred in 2019, leaving an estimated balance of \$31,616. Of the remaining estimated \$31,616, the Port incurred \$3,089 in 2020, and no further expenses are estimated to occur at this time. Based on the completion of the additional field work in 2019, the Port's environmental firm prepared a final investigation and clean-up report that was submitted to DOE. The Port continues to work with DOE on this matter. However, no further actions are in process at this time and the ending liability balance on Schedule 09 has been closed out at December 31, 2020. See *Schedule of Liabilities* (Schedule 09).

In the spring of 2020, the DOE notified the Port through email to advise the Port that the DOE had issued an Immediate Action Letter against one of the Port's tenants to perform, due to a complaint investigation. The Port anticipates that the tenant will work directly with DOE to resolve the issues identified. The Port does not anticipate taking part in any action or participating in any clean-up at this time.

The Port continues to monitor various Port sites with prior or existing environmental concerns including sites with restrictive covenants. In accordance with pollution remediation guidelines, the Port is working on various pollution remediation projects.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events

The Port has evaluated events through May 30, 2021, which is the date the financial statements were available to be issued.

In 2021, the CERB board approved the amended scope of work applied for in 2020 for the remainder of the CERB Committed Private Partner Program for the \$300,000 grant portion of the project at Johns Prairie. The Port intends that the final expenditures eligible to be reimbursed under the grant of \$169,800, will be completed, the final report filed and the grant closed out in 2021. See Note 8, Grants, Contingencies and Litigation, Construction Commitments and *Schedule of Liabilities* (Schedule 09).

In 2021, the Port is prepared to perform the work associated with the CERB Committed Private Partner Program for the construction of a \$2,500,000 building for a tenant, once the tenant finalizes their building plans. A specific start date has not yet been determined. See Note 8, Grants and Construction Commitments.

In 2020, the Port continues to work on the Sanderson Field pavement overlay and taxiway lighting project that is being primarily funded by the FAA and WSDOT grants. The majority of the project was completed in 2020, with the project closeout occurring in 2021. See Note 8, Capital Assets, Grants and Construction Commitments.

The Port has various active construction projects at December 31, 2020 that are expected to be completed in 2021 and 2022. See Note 8, Grants and Construction Commitments for a listing of remaining committed amounts totaling \$3,166,724.

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities. To help control the spread of the virus in our community, the Port administrative office was closed through June of 2021 and it is anticipated that it will open on a full-time basis to the public at that time. The Port recommended employees who could work remotely to do so, essential employees reporting to work practice appropriate social distancing measures. The length of time these measures will be in place, and the full extent of the financial impact on the Port is unknown at this time.

In January of 2021, the Port purchased a 3,600 square foot building and a 7,840 square foot hangar building from a long-term tenant for \$370,000 plus closing expenses. The Port terminated the existing lease and have entered into a lease agreement on the hangar building with a new tenant. The office building is being advertised for lease.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events, Continued

In April of 2021, a tenant occupied building, in excess of 30,000 square feet, burned down, making the space a total loss. The Port is actively working with insurance and the tenant to get the unusable space demolished and the damage from the firefighting cleaned and dried to prevent further damage. Results of the investigation are not yet final and may be inconclusive. The building replacement cost value, including demolition and code requirements is in excess of \$3.5 million according to initial cost estimated. To-date, the Port has received advances from their insurance company of \$1,537,449 towards the cleanup and rebuilding expenses.

The Port anticipates utilizing the \$30,000 airport related grant funding awarded to the Port via the FAA CARES Act in 2021 or 2022.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

Basis of Accounting and Reporting

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

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

A. Fund Accounting

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

PROPRIETARY FUND TYPE

Enterprise Fund

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

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

B. Basis of Accounting and Measurement Focus

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

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

D. Capital Assets - See Note 8, Capital Assets.

E. Compensated Absences

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

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

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

The total compensated absences balance was \$32,880 at December 31, 2019. See *Schedule of Liabilities* (Schedule 09).

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

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 Board of Commissioners. When expenditures that meet restrictions are incurred, the Port intends to use reserved resources first before using unreserved amounts. Reservations of Ending Cash and Investments consist of \$255,423.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS:

Investments are reported at original cost, unless indicated otherwise. Deposits and investments by type at December 31, 2019 are as follows:

<u>Type of Deposit or Investment</u>	<u>Port's Own Deposits and Investments Total</u>
Bank Deposits	\$ 824,579
Heritage Bank Public Now Invest	826,102
Local Government Investment Pool (LGIP)	<u>3,142,996</u>
Total	\$ <u>4,793,677</u>

It is the Port's policy to invest all temporary cash surpluses. The interest on these investments is recorded in the Port's General Fund. The investments in the LGIP are classified as cash equivalents. Within the investment accounts, the Port internally maintains segregated subaccounts to reflect reserved and internally reserved accounts. All investments are insured, registered or held by the Port or its agent in the government's name. See Note 1C, Cash and Investments.

Deposits

The carrying amount of the Port's cash deposits with financial institutions was \$818,950 held at Heritage Bank, a \$606 deposit in transit to Heritage Bank and \$5,023 temporarily held at the Mason County Treasurer's Office, for a total carrying value of \$824,579 at December 31, 2019, of which \$0 and \$824,579 was reserved and unreserved, respectively.

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Port would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The Port's deposits are mostly covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

The carrying amount of the Port's investments was \$826,102 held at Heritage Bank Public Now Invest and \$3,142,996 held at LGIP for a total carrying value of \$3,969,098 at December 31, 2019, of which \$255,423 and \$3,713,675 was reserved and unreserved, respectively.

The total carrying amount of cash deposits and investments was \$4,793,677 at December 31, 2019, of which \$255,423 and \$4,538,254 was reserved and unreserved, respectively.

The Port is a voluntary participant in the LGIP, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

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

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

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

NOTE 3 - PROPERTY TAX:

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

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

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

The Port's regular levy for 2019 was \$0.3220467 per \$1,000 on a total assessed valuation of \$2,405,789,907 for a total regular levy of \$774,777.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 4 - DEBT SERVICE REQUIREMENTS:

Debt Service

The Port issues General Obligation (G.O.) bonds to finance the acquisition and construction of capital assets. The Port is also liable for subordinated interagency Washington State Community Economic Revitalization Board (CERB) loans and Washington State Department of Health loans. See Note 1F, Long-Term Debt.

The accompanying *Schedule of Liabilities* (Schedule 09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for the year ended December 31, 2019.

The debt service requirements for G.O. bonds and subordinated interagency loans at December 31, 2019 are as follows:

Year ending December 31	Principal	Interest	Total
2020	\$ 268,495	\$ 50,874	\$ 319,369
2021	263,745	40,496	304,241
2022	279,559	30,252	309,811
2023	290,382	19,525	309,907
2024	148,319	11,623	159,942
2025 - 2029	197,668	22,121	219,789
2030 - 2034	120,608	12,056	132,664
2035 - 2039	<u>102,584</u>	<u>3,547</u>	<u>106,131</u>
Totals	\$ <u>1,671,360</u>	\$ <u>190,494</u>	\$ <u>1,861,854</u>

NOTE 5 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - OPEB PLANS:

During the year ended December 31, 2019, the Port adopted guidance for the presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a postemployment benefit liability reported on the Schedule of Liabilities.

The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The Port had eight (8) active plan members and two (2) retired plan members as of December 31, 2019. The Port contributed \$66,814 to the plan for the year ended December 31, 2019.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 6 - PENSION PLANS:

State Sponsored Pension Plans

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

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

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

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

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

At June 30, 2019 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the *Schedule of Liabilities* (Schedule 09), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$27,041	0.003771%	\$145,008
PERS 2/3	\$39,773	0.004870%	\$ 47,304
Total	\$66,814		\$192,312

NOTE 7 - RISK MANAGEMENT:

Port of Shelton is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two (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, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 7 - RISK MANAGEMENT, CONTINUED:

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

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a 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 remain in the Pool for a minimum of 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.

The Pool is governed by a Board of Directors consisting of seven (7) board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES:

Capital Assets

Capital assets, including major repairs, are assets with an initial individual cost of \$3,000 or more and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased. See Note 1D, Capital Assets.

During 2019, the Port incurred the various transactions affecting its capital assets, including the following:

In February of 2019, the Port completed the sale and purchase of two buildings with a tenant. A building located at 121 W Enterprise was sold to the building occupant for \$378,100 plus respective expenses. The Port also purchased a building from the same Port tenant for \$228,521 plus respective expenses.

In May of 2019, the Port sold the Oakland Bay Marina (OBM) to the Shelton Yacht Club (SYC) for \$50,000, along with the Port's boathouse, service boat and all associated onsite assets and supplies. All associated marina tenant deposits of \$27,088 were transferred to the SYC.

In 2019, the Port completed the demolition of the remaining structures at the former Sanderson Field fairgrounds building site.

Grants

In 2019, the Federal Aviation Administration (FAA) and the Washington State Department of Transportation (WSDOT) awarded the Port grants for the construction of a Sanderson Field airport runway pavement overlay and taxiway lighting project. The entire project is estimated to be approximately \$3,469,647, of which portions of the project will be funded from 100% discretionary FAA funds without a match requirement and a portion of the project will be funded from FAA Airport Improvement Program (AIP) funding with 90% coverage and from a WSDOT grant with a 5% match up to a \$150,000 cap. The project construction started in 2019. See Note 8, Construction Commitments and Subsequent Events and *Schedule of Expenditures of Federal Awards* (Schedule 16).

In 2018, the FAA and the WSDOT awarded the Port grants of \$288,624 and \$15,785, respectively, to conduct an environmental assessment for the airport five (5) year airport capital improvement plan. The unused portion of the 2018 WSDOT grant was rolled into the 2019 WSDOT grant by the granting agency. The 2018 FAA and WSDOT grants were reimbursable at 90% and 5%, respectively, of the total eligible project costs. The Port incurred eligible expenditures on the 2018 grants in 2019 and then the grants were closed out. See Note 8, Construction Commitments and Subsequent Events and *Schedule of Expenditures of Federal Awards* (Schedule 16).

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Grants, Continued

In 2007, the Port was a recipient of a Washington State Parks and Recreation Commission grant, which was a federal flow-through grant from U.S. Fish and Wildlife under the Clean Vessel Act for a boat sewage disposal facility. The Port completed the capital portion of the grant in 2008 and is eligible to participate in the maintenance reimbursement portion of the grant for the life of the asset. The Port incurred \$710 of eligible reimbursable grant expenditures in 2019. The Port submitted their final grant request for eligible period prior to the sale to SYC and received reimbursement in 2019. As authorized by the granting agency, the Port transferred the grant to the SYC. See Note 8, Contingencies and Litigation and *Schedule of Expenditures of Federal Awards* (Schedule 16).

In 2019, the Port filed the final report with CERB for the CERB Committed Private Partner Program for a \$400,000 public facilities project at Johns Prairie. The Port filed for the final reimbursements incurred prior to 2019 for the 10% portion of the \$160,000 loan and \$160,000 grant, respectively, and received a total of \$32,000 for the final reimbursements in 2019. See Note 8, Grants, Contingencies and Litigation and *Schedule of Liabilities* (Schedule 09).

In 2017, CERB notified the Port that they had been approved for a Committed Private Partner Program grant/loan for a public facilities project consisting of a \$300,000 loan, \$300,000 grant and a \$150,000 Port match, for a total project cost of \$750,000 for a tenant at Johns Prairie consisting of a roof and infrastructure improvements. The Port executed a contract with CERB on August 28, 2017 and the Port has four (4) years to complete the work. By December 31, 2017, the Port completed the match and loan portion of the project and is working on the grant portion of the project. The Port incurred \$157,129, \$11,665 and \$0 of eligible reimbursable grant expenditures in 2017, 2018 and 2019, respectively. See Note 8 Contingencies and Litigation, Subsequent Events, *Schedule of Liabilities* (Schedule 09).

In 2018, CERB notified the Port that they had been approved for a Committed Private Partner Program grant/loan for the construction of a 30,000 square foot building for an existing tenant, consisting of a \$1,000,000 loan, a \$1,000,000 grant and a \$500,000 Port match for a total project cost of \$2,500,000. The Port selected a consultant through a Request for Proposal (RFP) process and is working with the tenant on building and site requirements. See Note 8, Construction Commitments and Subsequent Events.

Grant expenditures include amounts owing to the Port for eligible expenditures incurred in 2019.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation

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

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

Contingencies and Litigation - FAA and WSDOT Recoverable Grants

The Port received a recoverable grant via the receipt of Sanderson Field Airport (SF) and its associated land when it had been decommissioned after World War II. Various usage requirements run with the airport. Any sale of any portion of SF would first have to obtain approval by the FAA and WSDOT, and then potentially from 90% to 100% of the sale proceeds may be required to be remitted back to the FAA and WSDOT. The Port continues to invest in SF. The FAA and WSDOT continue to provide grants for a portion of the SF improvements. The period of recoverability of the donated land to the Port is for the lifetime of SF. The minimum recoverability exposure is the entire SF, indefinitely. A current value of SF has not been determined.

The Port has received multiple recoverable grants from the FAA AIP for multiple years, which average 90% of \$150,000 a year. The grants have included the design, planning, engineering and construction of various airport assets. The FAA has also awarded 100% discretionary grants to the Port over the years for larger projects that do not have a Port or WSDOT match. The FAA grant assurances are as follows; "The terms, conditions and assurances of their grant agreements shall remain in full force and effect throughout the useful life of the facilities developed or equipment acquired for an airport development or noise compatibility program project, or throughout the useful life of the project items installed within a facility under a noise compatibility program project, but in any event not to exceed twenty (20) years from the date of acceptance of a grant offer of Federal funds for the project. However, there shall be no limit on the duration of the assurances regarding Exclusive Rights and Airport Revenue so long as the airport is used as an airport. There shall be no limit on the duration of the terms, conditions, and assurances with respect to real property acquired with federal funds. Furthermore, the duration of the Civil Rights assurance shall be specified in the assurances."

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued

Contingencies and Litigation - FAA and WSDOT Recoverable Grants, Continued

The Port has received FAA aviation grant funds through 2019. As such, the current period of recoverability extends through 2039 with the exception for the real property, which has no time limit. The FAA grants were included in Intergovernmental Revenues grant funds for each year received. A complete list of recoverable grants is maintained by the Port. See *Schedule of Expenditures of Federal Awards* (Schedule 16) for each year for the amounts of FAA grants incurred.

The Port has received multiple recoverable grants from the WSDOT Aviation Airport Aid Program over the years. The grants primarily have been structured to be a 5% match to the airport grants from the FAA's AIP. The WSDOT grants require that the airport remain open for the expected life of twenty (20) years; otherwise 100% of the grant funding must be returned within thirty (30) days of closure, sale, or discontinuance of service. The Port has received WSDOT aviation grant funds through 2019. As such, the current period of recoverability extends through 2039. The WSDOT grants were included in Intergovernmental Revenues grant funds for each year received. The majority of the grants from WSDOT have been 5% of the FAA \$150,000 a year AIP grants. A complete list of recoverable grants is maintained by the Port. See *Schedule of Financial Assistance* (Schedule 15) for each year for the amounts of WSDOT grants incurred.

Contingencies and Litigation - CERB Committed Private Partner Program Recoverable Grants

In 2017, the Port received a \$300,000 loan and a \$300,000 recoverable grant from CERB for a Committed Private Partner Program grant/loan for a public facilities project for a tenant at Johns Prairie and a \$160,000 loan and a \$160,000 recoverable grant from CERB for a Committed Private Partner Program grant/loan for a public facilities project for a tenant at Johns Prairie. The CERB terms state that in the event that the Port fails to perform the work or otherwise carry out its duties under these contracts in accordance with state laws, federal laws, and/or the provisions of these contracts, the Board reserves the right to recapture funds in an amount to compensate the Board for the noncompliance in addition to any other remedies available at law or in equity. The minimum recoverability exposure of these CERB grants/loans are \$600,000 and \$320,000, respectively, once all of the loan and grant reimbursements have been received plus additional amounts, including interest through 2044, six (6) years after the last payment date of July 31, 2038. See Note 8, Subsequent Events, *Schedule of Liabilities* (Schedule 09) and *Schedule of State Financial Assistance* (Schedule 15).

See Note 8, Grants and Subsequent Events.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Stewardship, Compliance and Accountability

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

Significant Commitments or Obligations

Construction Commitments

The Port has active construction projects as of December 31, 2019. The projects include:

<u>Project</u>	<u>Spent To-Date</u>	<u>Remaining Commitment</u>
Sanderson Field		
SF runway paving construction *	\$ 81,655	\$ 3,387,992
SF obstruction removal	26,174	47,498
SF runway 5 road construction	1,051	48,949
SF reservoir vents replacement	<u>3,283</u>	<u>41,829</u>
Total Sanderson Field	<u>112,163</u>	<u>3,526,268</u>
Johns Prairie		
JP infrastructure improvements **	130,200	150,000
JP building sprinkler system	250,196	16,443
JP site improvements	33,616	3,438
JP new building ***	6,928	2,500,631
JP reservoir vents replacement	1,641	20,914
JP roof replacement	7,453	2,220
JP railroad upgrades	<u>5,043</u>	<u>10,250</u>
Total Johns Prairie	<u>435,077</u>	<u>2,703,896</u>
Total Construction Commitments	\$ <u>547,240</u>	\$ <u>6,230,164</u>

* 95% reimbursable (excluding staff time) by FAA/WSDOT

** Partially reimbursable by CERB loans/grants

*** Commitment funded by approved \$1.5m CERB loan, \$0.5m CERB grant and \$0.5m match

The remaining construction commitments not designated above will be funded from Port funds. See Note 8, Subsequent Events. The project expenditures for the Port's pollution remediation are disclosed in Note 8, Grants, Pollution Remediation, Subsequent Events and *Schedule of Liabilities* (Schedule 09).

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Significant Commitments or Obligations, Continued

Pollution Remediation

On April 23, 2014, the Port received written notification dated April 17, 2014 from the Department of Ecology (DOE) that one of the Port's properties in Johns Prairie was subject to a clean-up process resulting from a former Port tenant. On August 24, 2014, the Port entered into a Voluntary Clean-up Program with DOE for this site. The Port has had the site tested for potential contaminants in 2014, 2015 and 2018. The Port has been working with DOE and has provided the results of the tests to DOE. The Port has properly disposed of the materials in a settling pond. The Port requested a No Further Action (NFA) letter on the site. DOE asked for an additional investigation of this site prior to issuing a NFA letter. The Port worked with CDM Smith, Inc. (CDM Smith), an environmental firm, to assist in providing the additional information being requested by DOE. On October 16, 2018, the Port passed Resolution 18-09, Emergency Action for clean-up of the existing site at Johns Prairie to move forward with the proper disposal of contaminated soils. Previously, the Port incurred approximately \$10,000 of investigation costs for this site. In working with DOE in 2018, the Port estimated total remaining clean-up costs to be \$260,232, of which \$123,232 was incurred in 2018 and \$105,384 was incurred in 2019, leaving an estimated balance of \$31,616, in addition to the earlier investigation costs of approximately \$10,000. The Port conducted additional field work in 2019 on the site and completed the proper disposal of contaminated soils to an authorized disposal site in a prescribed manner. Based on the completion of the final additional field work in 2019, the Port's environmental firm prepared a final investigation and clean-up report that was submitted to DOE. DOE sent a letter to the Port on September 13, 2019, stating that the DOE has determined that further remedial action is necessary at the site. The Port continues to work with DOE on this matter. See Note 8, Subsequent Events and *Schedule of Liabilities* (Schedule 09).

The Port continues to monitor various Port sites with prior or existing environmental concerns including sites with restrictive covenants. In accordance with pollution remediation guidelines, the Port is working on various pollution remediation projects.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events

The Port has evaluated events through June 9, 2020, which is the date the financial statements were available to be issued.

In accordance with pollution remediation guidelines, the Port is working on various pollution remediation projects. The Port continues to work with DOE on an existing site at Johns Prairie. See Note 8, Pollution Remediation and *Schedule of Liabilities* (Schedule 09).

The Port continues to perform the work in 2019 associated with the CERB Committed Private Partner Program for a \$750,000 public facilities project at Johns Prairie for the \$300,000 grant portion of the project. The Port intends that the project will be completed and the final report filed in 2020. In January of 2019 the Port made its first loan repayment to CERB per the loan terms. See Note 8, Grants, Contingencies and Litigation, Construction Commitments and *Schedule of Liabilities* (Schedule 09).

In 2020, the Port continues to perform the work associated with the CERB Committed Private Partner Program for the construction of a \$2,500,000 building for a tenant. In 2019, the Port selected a consultant through a RFP process and is currently working with the tenant on building and site requirements. See Note 8, Grants and Construction Commitments.

In 2020, the Port continues to work on the Sanderson Field pavement overlay and taxiway lighting project that is being primarily funded by the FAA and WSDOT grants. The Port anticipates the project will be completed in 2020. See Note 8, Grants and Construction Commitments.

The Port has various active construction projects at December 31, 2019 that are expected to be completed in 2020 and 2021. See Note 8, Grants and Construction Commitments for a listing of remaining committed amounts totaling \$6,230,164.

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. The length of time these measures will be in place, and the full extent of the financial impact on the Port is unknown at this time.

In the Spring of 2020, the DOE notified the Port through email to advise the Port that the DOE had issued an Immediate Action Letter against one of the Port's tenants to perform, due to a complaint investigation. The Port anticipates that the tenant will work directly with DOE to resolve the issues identified. The Port does not anticipate taking part in any action or participating in any clean-up at this time.

PORT OF SHELTON
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2019

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events, Continued

On May 19, 2020, the Port and the Port's General Counsel submitted to the FAA a signed FAA CARES Act Agreement between the FAA and the Port of Shelton, which provides for airport related grant funding of up to \$30,000 for future airport related projects.

In 2020, the Port is in communication with CERB staff to take an amended scope of work to the CERB board for additional site work at Johns Prairie to utilize the remaining portion of the available CERB grant for that location. Upon the CERB board's approval, the Port anticipates completion of the additional site work and closing out the grant in 2020. See Note 8, Grants and Construction Commitments.

**Port of Shelton
Schedule of Liabilities
For the Year Ended December 31, 2020**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Tax Exempt Serial Bonds Series A for Buildings and Infrastructure, ISSUED 9/15/2003	3/1/2021	150,000	-	115,000	35,000
251.11	General Government Deferred Serial Bonds Series C for Buildings and Infrastructure, ISSUED 9/15/2003	3/1/2023	350,000	-	-	350,000
251.11	Tax Exempt Serial Bonds for Buildings and Infrastructure, ISSUED 8/16/2005	3/1/2025	455,000	-	65,000	390,000
263.85	WA State Department of Health to Replace AC Waterline, Originally DWSRF, ISSUED 9/14/2004	8/1/2004	35,792	-	7,158	28,634
263.85	WA State Department of Health to Replace AC Waterline, Originally DWSRF, ISSUED 9/14/2004	8/1/2024	223,893	-	44,779	179,114
263.85	CERB/Building - North Star, ISSUED 1996	7/1/2020	15,555	-	15,555	-
263.85	CERB/JP Roof and Infrastructure, ISSUED 8/28/2017	1/31/2038	287,793	-	13,204	274,589
263.85	CERB/JP Infrastructure, ISSUED 5/18/2017	1/31/2038	153,327	-	7,280	146,047
Total General Obligation Debt/Liabilities:			1,671,360	-	267,976	1,403,384
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		32,880	7,088	-	39,968
263.93	Environmental Liabilities		31,616	-	31,616	-
264.30	Pension Liabilities		192,312	-	7,185	185,127
264.40	OPEB Liabilities		336,289	177,196	-	513,485
Total Revenue and Other (non G.O.) Debt/Liabilities:			593,097	184,284	38,801	738,580
Total Liabilities:			2,264,457	184,284	306,777	2,141,964

**Port of Shelton
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Tax Exempt Serial Bonds Series A for Buildings and Infrastructure, ISSUED 9/15/2003	3/1/2021	260,000	-	110,000	150,000
251.11	General Government Deferred Serial Bonds Series C for Buildings and Infrastructure, ISSUED 9/15/2003	3/1/2023	350,000	-	-	350,000
251.11	Tax Exempt Serial Bonds for Buildings and Infrastructure, ISSUED 08/16/2005	3/1/2025	520,000	-	65,000	455,000
263.85	WA State Department of Health, Replace AC Waterline, Originally DWSRF ISSUED 09/14/2004	8/1/2024	42,950	-	7,158	35,792
263.85	WA State Department of Health, Replace AC Waterline, Originally DWSRF ISSUED 09/14/2004	8/1/2024	268,672	-	44,779	223,893
263.85	CERB/Building - North Star, ISSUED 1996	7/1/2020	31,111	-	15,556	15,555
263.85	CERB/JP Roof and Infrastructure, ISSUED 08/28/2017	1/31/2038	300,000	-	12,207	287,793
263.85	CERB/JP Infrastructure, ISSUED 05/18/2017	1/31/2038	160,000	-	6,673	153,327
Total General Obligation Debt/Liabilities:			1,932,733	-	261,373	1,671,360
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		51,083	-	18,203	32,880
263.93	Environmental Liabilities		137,000	-	105,384	31,616
264.40	OPEB Liabilities		-	336,289	-	336,289
264.30	Pension Liabilities		279,154	-	86,842	192,312
Total Revenue and Other (non G.O.) Debt/Liabilities:			467,237	336,289	210,429	593,097
Total Liabilities:			2,399,970	336,289	471,802	2,264,457

**Port of Shelton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0069-016- 2019	-	2,985,872	2,985,872	1.2.3
Total Federal Awards Expended:				-	2,985,872	2,985,872	-

The accompanying notes are an integral part of this schedule.

NOTES TO THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2020

Note 1 - Basis of Accounting

This Schedule is prepared on the same basis of accounting as the Port's financial statement. The Port uses the cash basis of accounting where revenues are recognized when cash is received and expenditures are recognized when paid. Capital asset purchases including major repairs are expensed when paid. Long-term liabilities are accounted for on the *Schedule of Liabilities* (Schedule 09).

Note 2 - Federal De Minimis Indirect Cost Rate

The Port has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The amount expended includes \$0 claimed as an indirect cost recovery using an approved indirect cost rate of 0.0 percent.

Note 3 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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