

PORT OF SHELTON

Shelton, Washington

ANNUAL FINANCIAL REPORT

December 31, 2019

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ANNUAL REPORT CERTIFICATION

Port of Shelton

MCAG No. 1746

Submitted pursuant to RCW 43.09.230 to the Washington State Auditor's Office

For the Fiscal Year Ended December 31, 2019

GOVERNMENT INFORMATION:

Official Mailing Address 21 West Sanderson Way, Shelton, WA 98584

Official Website Address www.portofshelton.com

Official E-mail Address info@portofshelton.com

Official Phone Number (360) 426-1151

AUDIT CONTACT or PREPARER INFORMATION and CERTIFICATION:

Audit Contact or Preparer Name and Title Wendy E. Smith, Executive Director

Contact Phone Number (360) 426-1151

Contact E-mail Address wendys@portofshelton.com

I certify 9th day of June, 2020, that annual report information is complete, accurate and in conformity with the Budgeting, Accounting and Reporting Systems Manual, to the best of my knowledge and belief, having reviewed this information and taken all appropriate steps in order to provide such certification. I acknowledge and understand our responsibility for the design and implementation of controls to ensure accurate financial reporting, comply with applicable laws and safeguard public resources, including controls to prevent and detect fraud. Finally, I acknowledge and understand our responsibility for immediately submitting corrected annual report information if any errors or an omission in such information is subsequently identified.

Audit Contact or Preparer Signature: 

Jan T. Fancher, CPA, PLLC

CERTIFIED PUBLIC ACCOUNTANT

A Professional Limited Liability Company

To the Board of Commissioners
Port of Shelton
Shelton, Washington

Management is responsible for the accompanying financial statement of the Port of Shelton, which comprises the statement of fund resources and uses arising from cash transactions for the year ended December 31, 2019, and the related notes to the financial statement in accordance with the cash basis of accounting, and for determining that the cash basis of accounting is an acceptable financial reporting framework. I have performed a compilation engagement in accordance with the Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statement nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on this financial statement.

I draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared in accordance with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information, including the prescribed certification statement and supplemental information including supplementary schedules and prescribed reporting requirements on pages 1 and 19 through 25 are not a required part of the basic financial statement and notes to the financial statement, but are supplementary information prescribed by the Washington State Auditor. This information is the representation of management. The information was subject to my compilation engagement, however, I have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide an assurance on such supplementary information.

I am not independent with respect to the Port of Shelton.



Vancouver, Washington

June 9, 2020

(2)

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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	<u>76,376</u>

Total Revenues 2,944,537

Expenditures

540	Transportation	<u>1,911,314</u>
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Total Expenditures 1,911,314

Excess Revenues over Expenditures 1,033,223

Other Increases

391-393, 596	Debt Proceeds	--
385	Special or Extraordinary Items	--
386 / 389	Custodial Activities	194,220
381, 382, 395, 398	Other Resources	<u>560,687</u>

Total Other Increases 754,907

Other Decreases

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	<u>28,864</u>

Total Other Decreases 1,748,386

Increase in Cash and Investments 39,744

Ending Cash and Investments

5081000	Reserved	255,423
5088000	Unreserved	<u>4,538,254</u>

Total Ending Cash and Investments 4,793,677

See accountant's compilation report.
The accompanying notes are an integral part of this financial statement.

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.

See accountant's compilation report.

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 Depository 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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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:

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.

See accountant's compilation report.

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).

See accountant's compilation report.

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.

Accounting and Reporting Changes

The Port is implementing GASB No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance that was issued in May of 2020, to provide temporary relief to governments in light of the COVID-19 pandemic. This statement extends the effective dates of certain accounting and financial reporting provisions that were effective for 2019 applicable to the financial statements of all state and local governments.

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.

SUPPLEMENTARY SCHEDULES

REVENUES/EXPENDITURES/EXPENSES

For the Year Ended December 31, 2019

MCAG	Fund #	Fund Name	BARS Account	BARS Name	Amount
1746	401	General	3081000	Reserved Cash and Investments - Beginning	255,423
1746	401	General	3088000	Unreserved Cash and Investments - Beginning	4,498,510
1746	401	General	3111000	Property Tax	777,295
1746	401	General	3312000	Federal Direct Grant from Department of Transportation	351,427
1746	401	General	3331500	Federal Indirect Grant from Department of Interior	4,010
1746	401	General	3340360	State Grant from Department of Transportation	19,800
1746	401	General	3340420	State Grant from Department of Commerce	32,000
1746	401	General	3370000	Local Grants, Entitlements and Other Payments	15,736
1746	401	General	3446000	Airports and Ports Services	1,667,893
1746	401	General	3611000	Investment Earnings	71,938
1746	401	General	3614000	Other Interest	1,449
1746	401	General	3699100	Miscellaneous Other	2,989
1746	401	General	3821000	Refundable Deposits	136,189
1746	401	General	3893000	Custodial Type Collections	194,220
1746	401	General	3951000	Proceeds from Sales of Capital Assets	424,498
1746	401	General	5460010	Airports and Ports - Salaries and Wages	578,679
1746	401	General	5460020	Airports and Ports - Personnel Benefits	286,549
1746	401	General	5460030	Airports and Ports - Supplies	46,795
1746	401	General	5460040	Airports and Ports - Services	999,291
1746	401	General	5821000	Refund of Deposits	28,864
1746	401	General	5893000	Custodial Type Remittances	193,262
1746	401	General	5914670	Debt Repayment - Airports and Ports	261,373
1746	401	General	5924680	Interest and Other Debt Service Cost - Airports and Ports	62,243
1746	401	General	5944660	Capital Expenditures/Expenses - Airports and Ports	1,202,644
1746	401	General	5081000	Reserved Cash and Investments - Ending	255,423
1746	401	General	5088000	Unreserved Cash and Investments - Ending	4,538,254

See accountant's compilation report.

SCHEDULE OF LIABILITIES

For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	Tax Exempt Serial Bonds Series A for Buildings and Infrastructure, ISSUED 09/15/2003	03/01/2021	260,000	--	110,000	150,000
251.11	General Government Deferred Serial Bonds Series C for Buildings and Infrastructure, ISSUED 09/15/2003	03/01/2023	350,000	--	--	350,000
251.11	Tax Exempt Serial Bonds for Buildings and Infrastructure, ISSUED 08/15/2005	03/01/2025	520,000	--	65,000	455,000
263.85	WA State Department of Health, Replace AC Waterline, Transferred from DWSRF on 06/30/2018, ISSUED 09/14/2004	08/01/2024	42,950	--	7,158	35,792
263.85	WA State Department of Health, Replace AC Waterline, Transferred from DWSRF on 06/30/2018, ISSUED 09/14/2004	08/01/2024	268,672	--	44,779	223,893
263.85	CERB/Building - North Star Building, ISSUED 1996	07/01/2020	31,111	--	15,556	15,555
263.85	CERB/JP Roof and Infrastructure, ISSUED 08/28/2017	01/31/2038	300,000	--	12,207	287,793
263.85	CERB/JP Infrastructure, ISSUED 05/18/2017	01/31/2038	160,000	--	6,673	153,327
Total General Obligations			1,932,733	--	261,373	1,671,360
Revenue Obligations						
259.12	Compensated Absences		51,083	--	18,203	32,880
263.97	Environmental Liabilities		137,000	--	105,384	31,616
264.40	OPEB Liabilities		--	269,125	--	269,125
264.30	Pension Liabilities		279,154	--	86,842	192,312
Total Revenue Obligations			467,237	269,125	210,429	525,933
Total Liabilities			2,399,970	269,125	471,802	2,197,293

See accountant's compilation report.

SCHEDULE OF STATE FINANCIAL ASSISTANCE**For the Year Ended December 31, 2019**

Grantor	Program Title	Identification Number	Amount
State Grant from Department of Transportation	Aviation Division - Airport Improvements	SHE-01-18	7,391
State Grant from Department of Transportation	Aviation Division - Airport Improvements	SHE-01-19	6,871
		Sub-total	14,262
		Grand total	14,262

See accountant's compilation report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures		Total	Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards			
U.S. Fish and Wildlife Service, Department of the Interior (via WA State Parks and Recreation Commission)	Clean Vessel Act	15.616	CVA #07-145- 05	710	--	710	--	1.2.3
Federal Aviation Administration (FAA), Department of Transportation	Airport Improvement Program	20.106	3-53-0069- 015-2018	--	163,641	163,641	--	1.2.3
Federal Aviation Administration (FAA), Department of Transportation	Airport Improvement Program	20.106	3-53-0069- 016-2019	--	187,783	187,783	--	1.2.3
Total CFDA 20.106				--	351,424	351,424	--	
Total Federal Awards Expended				710	351,424	352,134	--	

The Accompanying Notes To The Schedule of Expenditures of Federal Awards Are An Integral Part of This Schedule.

**NOTES TO THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2019

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 - 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.

Note 3 - 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.

Labor Relations Consultant(s)**For the Year Ended December 31, 2019**Has your government engaged labor relations consultants? ____ Yes X No

If yes, please provide the following information for each consultant:

Name of firm:
Name of consultant:
Business address:
Amount paid to consultant during fiscal year:
Terms and conditions, as applicable, including: Rates (e.g., hourly, etc.) Maximum compensation allowed Duration of services Services provided

Risk Management

For the Year Ended December 31, 2019

Self-Insurance Program Manager: Wendy E. Smith, Executive DirectorManager Phone: (360) 426-1151Manager Email: wendys@portofshelton.com

No Does the local government self-insure for any class of risk, including property and liability, health and welfare, unemployment compensation, workers' compensation and other risk and obligation? (yes/no)

If the answer to any of the above questions is yes, then answer the rest of the form in relation to the government's self-insured risks.

If NOT, STOP, the local government does not need to complete the rest of this Schedule. Copy the table below as needed.

	<u>Self-insurance program title or type of peril where risk is covered by formal self-insurance:</u>				
	<i>Program/Peril 1</i>	<i>Program/Peril 2</i>	<i>Program/Peril 3</i>	<i>Program/Peril 4</i>	<i>Program/Peril 5</i>
Self-Insurance as a <i>formal</i> program?					
If yes, do other governments participate?					
If yes, please list participating governments.					
Self-Insure as part of a joint program?					
Does a Third-Party Administer manage claims?					
Has program had a claims audit in last three years?					
Are program resources sufficient to cover expenses?					
Does an actuary estimate program liability?					
Number of claims paid during the period?					
Total amount of paid claims during the period?					
Total amount of recoveries during the period?					

Provide any other information necessary to explain answers to the Schedule 21 questions above.

See accountant's compilation report.