PORT OF RIDGEFIELD
Management's Discussion and Analysis
December 31, 2017

We offer readers this narrative overview and analysis of the Port of Ridgefield's financial activities for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

Overview of the financial statements

The Port's financial statements include two components: 1) the Port's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the Port's basic financial statements.

Condensed financial position information
The statement of net position presents information concerning the Port's assets, deferred outflows, liabilities, deferred inflows and net position. Net position is the difference between assets and deferred outflows and liabilities and deferred inflows. Increases or decreases in net position may indicate, over time, if either the financial position of the Port is improving or deteriorating.

The following condensed financial information provides an overview of the Port's financial position for the years ended December 31, 2017 and 2016.

NET POSITION
December 31, 2017 and 2016

	2017	2016
Assets:		
Current and other assets	$ 18,033,690	$ 9,332,466
Capital assests, net	19,309,264	18,128,564
Total Assets	37,342,954	27,461,030
Deferred Outflows of Resources	74,447	116,396
Liabilities:		
Other liabilities	643,001	1,211,612
Long-term liabilities	10,494,721	6,385,798
Total Liabilities	11,137,722	7,597,410
Deferred Inflows of Resources	6,745,488	30,295
Net Position:		
Net invested in capital assets	15,063,404	16,625,547
Restricted	415,855	-
Unrestricted	4,054,932	3,315,174
Total Net Position	$ 19,534,191	$ 19,940,721

The 2017 net position of the Port is $19.5 million, a decrease of $400,000 or 2% over 2016. This decrease is a result of continued expenses exceeding revenues as the Port shores up operating activity after winding down the remediation activity.

Cash, cash equivalents and investments at December 31, 2017 represent 20% of total assets. This is a decrease over the prior year but is a result of the spending on capital assets.

At December 31, 2017, long-term liabilities increased by $4.1 million over 2016. This is a direct result of the final draw on the 2016 revenue bonds during the year.

Other liabilities, however, reflected a decrease of $569,000 over the prior year. This is primarily related to a decrease in accounts payable. The decrease of accounts payable relates a decrease in activity related to the capital improvements that were ramping up and the end of 2016 but has slowed by the end of 2017.

At December 31, 2017, The Port's investment in capital assets (land, structure and facilities, equipment and construction in progress) less any related debt is $15.1 million. While the Port's capital assets increased by $1.6 million over the prior year balance, the long-term debt increased associated with those assets increased more the $4 million over the same time period. In addition to equal increase of capital assets and debt related to the Fish and Wildlife Building, the Port moved $3.5 million in land out of capital asset to the category "asset held for sale".

The 2016 Revenue bond required debt service accounts which are shown as restricted net position. These balances will continue to grow until they meet bond covenant requirements.

In 2017, the Port presented a positive unrestricted net position of $4.1 million compared to $3.7 million at the end of 2016. Unrestricted net position represents the amount that may be used to meet the Port's ongoing non-capital obligations. The 22% increase between 2017 and 2016 is a result of the reclassification of capital assets to assets held for sale.

Summary of operations and changes in net position

The statement of revenues, expenses and changes in fund net position shows how the Port's net position changed during the most recent fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected receivables). The following is a condensed version of the Statement of Changes in Net Position for the Port:

CHANGE IN FUND NET POSITION

Revenues	2017	2016
Operating Revenues	$ 435,710	$ 136,887
Nonoperating Revenues		
Taxes Levied	536,089	503,059
Interest Earned	775	9,062
Other Revenues	1,172	2,598
Gain (Loss) on Disposal of Assets	-	111,948
Total Revenues	973,746	763,554
Expenses		
Operating Expenses	1,520,703	1,663,547
Nonoperating Expenses		
Interest and Fiscal Charges	105,119	98,867
Remediation Obligation Adjustment	(64,361)	100,817
Other Non-Operating Expenses	174,928	208,809
Total Expenses	1,736,389	2,072,040
Excess (Deficiency) Before Contributions	(762,643)	(1,308,486)
Capital Contributions	366,655	51,710
Change in Net Position	(395,988)	(1,256,776)
Net Position - Beginning	19,940,721	21,197,497
Prior period adjustment	(10,542)	-
Net Position - Ending	$ 19,534,191	$ 19,940,721

Total operating revenues for the Port in 2017 were $435,710, an increase of 218% over 2016. The increase is the result of the presentation change due to the implementation of GASB Statement 87. The primary variance relates to interest earnings. During 2017, the Port implemented GASB Statement 87, Leases. As a result, the Port recorded $243,031 in interest earnings from leases.

For non-operating revenues, unlike the prior year, the Port did not sell any assets, therefore there was no gain on disposal of assets during 2017 compared to $112,000 in 2016.

Total operating expenses for 2017 and 2016 respectively were $1,520,700 and $1,663,547. This $142,847 (9%) decrease is caused by decrease in outside services which is primarily commission on leases. This decrease was offset by a slight increase depreciation expense and general administrative cost. Nonoperating expenses continue to reflect the changes in environmental remediation activities. The remediation obligation adjustment reflects the re-measurement of the expected remediation obligation upon certain benchmarks established in GASB 49. Portions of the remediation activity have been finalized and the engineers are better able to estimate the amount of time and costs remaining on the remediation. The swing in the environmental remediation adjustments of $165,178 resulted in total nonoperating expenses to decrease $193,000 or 47% 2017 over 2016.

The Port presents operating losses in over the past two years. During 2017 and 2016, the Port is intentionally using reserves from property sales to invest in developments.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided are an an integral part of the Port's financial statements.

Capital Asset and Debt Administration

Capital assets

The Port's investment in capital assets as of December 31, 2017, was $19,309,264 (net of accumulated depreciation). The Port's investment in capital assets includes land; buildings; improvements (other than buildings); machinery and equipment; and construction in progress. The total increase in the Port's investment in capital assets for 2017 was 9.4%. In 2017, the main increase was in Building and Improvements a direct result of the completion of construction projects started in 2016 and finalized in 2017. The increase of Buildings and Improvements was offset by a decrease in Land. The Port reclassified several parcels to assets held for sale during 2017.

CAPITAL ASSETS, NET

December 31, 2017 and 2016

	2017	2016
Land	$ 5,288,811	$ 8,777,030
Right of Way	679,414	679,414
Buildings and Improvements	10,127,851	3,082,785
Machinery and Equipment	66,111	73,868
Construction in progress	3,095,877	5,464,267
Intangible - Mitigation Credits	51,200	51,200
	$ 19,309,264	$ 18,128,564

Additional information on the Port's capital assets can be found in Note 4 on page 13 of this report.

Long-term debt

The Port issued $4.5 million in Lease Revenue bonds during 2016 for construction of a building. During 2016 only $75,000 of this was drawn against the bonds. During 2017, the remaining amount was drawn. As of December 31, 2017, the total bonds outstanding was $5,057,752.

Additional information on the Port's long-term debt can be found in Note 7 on pages 20-23 of this report.

Economic Outlook and Currently Known Facts

During the reporting period the port reached an agreement with Washington State Department of Fish and Wildlife to construct and lease to the agency a 30,000 square foot building to house the agency's SW regional headquarters. Construction was completed in June 2017 and WDFW occupancy began in July 2017. The project was financed with a $4.5 million private placement revenue bond backed by a ten-year lease

The port plans to bid construction of the final phase of the Pioneer Street rail overpass in the latter half of 2018. Additional unexpected project permitting requirements by federal, state and city agencies delayed project construction. City shoreline permitting, including conditional project redesign evaluation, and the introduction of endangered species of deer into the project area by the US Fish & Wildlife Service made it necessary for the port to update the project's environmental assessment required under the National Environmental Protection Act. Construction is set to begin once final permits are in place. Construction will require an estimated twelve to eighteen months. In 2016, the port received a $900,000 grant from the Federal Rail Administration to support construction. In 2018, project permitting delays included conditions set forth by City of Ridgefield.

The Port is also pursuing construction of a 42-mile dark fiber optic loop in the Discovery Corridor. The port received a $50,000 grant for a formal needs assessment and feasibility study which was completed in 2017. The port is beginning to build dark fiber optic infrastructure to promote world-class, high performance economic development in the Port of Ridgefield District. A publically owned dark fiber loop will reduce time-to-market deployment of private sector high-speed fiber connection and service. The loop will lower up-front capital needs for service providers and allow service providers to better compete to serve end users. End users will benefit from system access, lower costs, greater bandwidth and more reliable, redundant service for this basic business infrastructure.

In 2013, the Port and Washington State Department of Ecology signed a partial consent decree regarding the cleanup of the former Pacific Wood Treating Company (PWT) site. Cleanup related activity on port owned property is limited to groundwater monitoring. Groundwater monitoring will continue for several years to confirm the successful remediation of Port property. The Port and Ecology are have completed cleanup of a six-block neighborhood area immediately east of the former PWT site in 2016 and 2017. Ecology has expanded the scope of the neighborhood cleanup to include sampling and if necessary, physical remediation of thirteen additional acres of neighborhood near downtown Ridgefield. The exact fiscal impact of expanding the scale of the PWT cleanup is not known at this time but has been estimated in the remediation obligation liability.

Requests for Information

This financial report is designed to provide a general overview of the Port's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Accounting Manager, PO Box 55, 111 West Division, Ridgefield, WA 98642.

PORT OF RIDGEFIELD
STATEMENT OF NET POSITION
December 31, 2017

Assets		2017
Current Assets		
Cash & Cash Equivalents	$	6,047,125
Cash Restricted for Customer Deposits		5,000
Accounts Receivables - net of allowance for doubtful accounts		3,377
Property Taxes Receivable		13,806
Due from Other Governments		52,844
Prepaid Expenses		34,565
Asset Held for Sale		3,974,891
Total Current Assets		10,131,608
Noncurrent Assets		
Cash Restricted		1,248,697
Leases Receivable		6,653,385
Capital Assets, not being depreciated		9,115,302
Capital Assets, being depreciated (net)		10,193,962
Total Noncurrent Assets		27,211,346
Total Assets		37,342,954
Deferred Outflows of Resources		
Amounts related to pensions		74,447
Total Deferred Outflows of Resources		74,447
Liabilities		
Current Liabilities		
Accounts Payable		610,519
Accrued Payroll Liabilities		27,482
Customer Deposits		5,000
Bond Payable - Current		295,519
Notes and Loans Payable		20,950
Accrued Compensated Absences		4,854
Total Current Liabilities		964,324
Noncurrent Liabilities		
Bonds Payable		4,762,233
Other Post Employment Benefit Payable (OPEB)		437,976
Accrued Compensated Absences		43,684
Interagency Loan for Environmental Remediation		4,392,356
Net Pension Liability		473,962
Pollution Remediation Obligation		63,187
Total Noncurrent Liabilities		10,173,398
Total Liabilities		11,137,722
Deferred Inflows of Resources		
Amounts related to pensions		92,103
Amounts related to leases		6,653,385
Total Deferred Inflows of Resources		6,745,488
Net Position		
Net Investment in Capital Assets		15,063,404
Restricted for Debt Service		415,855
Unrestricted		4,054,932
Total Net Position	$	19,534,191

PORT OF RIDGEFIELD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For Year Ended December 31, 2017

		2017
Operating Revenues		
Property Lease & Rental	$	374,164
Boat Launch Operations		61,546
Total Operating Revenues		435,710
Operating Expenses		
Property Lease & Rental		233,259
Boat Launch Operations		34,347
General and Administrative Costs		1,081,281
Depreciation & Amortization		171,816
Total Operating Expenses		1,520,703
Operating Loss		(1,084,993)
Nonoperating Revenues (Expenses)		
Interest Earned		775
Ad Valorem Taxes Levied for General Purposes		536,089
Other Nonoperating Revenues		1,172
Interest and Fiscal Charges		(105,119)
Remediation Activity Adjustment		64,361
Other Nonoperating Expenses		(174,928)
Total Nonoperating Revenues (Expenses)		322,350
Income (Loss) before Contributions		(762,643)
Capital Contributions		366,655
Increase (decrease) in Net Position		(395,988)
Net Position - Beginning of Period		19,940,721
Prior Period Adjustment		(10,542)
Net Position - End of Period	$	19,534,191

The accompanying notes are an integral part of this statement

PORT OF RIDGEFIELD

STATEMENT OF CASH FLOWS

For Year Ended December 31, 2017

		2017
Cash flows from operating activities		
Cash received from customers	$	442,496
Cash payment for goods and services		(432,086)
Cash payments to employees		(813,344)
Net cash provided (used) by operating activities		(802,934)
Cash flows from noncapital financing activities		
State/Federal remediation recoveries received		1,484,943
Pollution remediation payments		(1,436,564)
Proceeds from unrestricted property taxes		535,852
Receipt of remediation loan proceeds		39,939
Other payments made		(185,470)
Net cash provided (used) by noncapital financing activities		438,700
Cash flows from capital and related financing activities		
Capital grants received		366,655
Payment on loans and notes		(20,950)
Payment on bonds		(188,912)
Disbursements for purchase of capital assets		(5,899,749)
Proceeds on issuance of bond		4,475,000
Interest and fiscal charges paid		(105,118)
Net cash provided (used) for capital and related financing activities		(1,373,074)
Cash flows from investing activities		
Receipts of interest and dividends		775
Net cash provided by investing activities		775
Net increase (decrease) in cash and cash equivalents		(1,736,533)
Cash and cash equivalents - January 1		9,037,355
Cash and cash equivalents - December 31	$	7,300,822
Reconciliation to statement of net position		
Cash and cash equivalents - unrestricted		6,047,125
Cash and cash equivalents - restricted		1,248,697
Cash and cash equivalents - restricted for customer deposits		5,000
Cash and cash equivalents - December 31	$	7,300,822

The accompanying notes are an integral part of this statement

PORT OF RIDGEFIELD
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2017

Reconciliation of operating income (loss) to net cash provided (used) by operating activities		2017
Operating income (loss)	$	(1,084,993)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization		171,816
Change in assets and liabilities:		
Decrease (increase) in accounts receivable		6,786
Increase (decrease) in accounts payable		109,150
Decrease (increase) in prepaid items		(8,441)
Increase (decrease) in other payables		46,215
Increase (decrease) in pension accounts		(43,467)
Total adjustments		282,059
Net cash provided (used) by operating activities	$	(802,934)
Noncash Transactions		
Lease and deferred inflows established	$	6,789,424
Accounts payable change financing capital acquistions		572,344

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Ridgefield (Port) was created in 1940 by a vote of the citizens of the Port District. The Port's size was expanded in 1980 to its present boundaries. The Port operates under the laws of the State of Washington applicable to a public port district as a municipal corporation under the provisions of Chapter 53 of the *Revised Code of Washington* (RCW). The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The Port is a special purpose government that provides boat launch and industrial and commercial property rentals to tenants and the general public and is supported by rents, user charges and the property tax levy. The Port has the capacity to provide marine terminal services in the future.

An elected three-member board governs the Port. As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with Port activity are included on the statement of net position. The Port's reported total net position is segregated into 1) net investment in capital assets 2) restricted and 3) unrestricted net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in total net position. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The Port distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a Port's principal ongoing operations. The Port's business operating revenues are derived from its boat launch and property leasing lines of business. Operating expenses include the direct expenses of operating these lines of business and the general and administrative expenses of the Port as a whole, including the cost of executive management, administration, marketing, accounting, finance, legal, insurance, taxes paid, and direct and indirect costs of the Port Commission itself. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Items included as nonoperating revenue and expense are property and other tax receipts, bond interest expense, environmental remediation grant revenue and remediation expenses, and election expenses (related to services provided for ballot preparation).

The remediation activity adjustment on the Statement of Revenues, Expenses and Changes in Fund Net Position represents the modification to the expected cash flow estimate for changes in the Remediation Obligation. This is a result of annually refining the estimate of its remediation obligation liability as additional information becomes available or as the Port reaches additional recognition benchmarks as defined by GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* Environmental cost recoveries from the state are received on a cost reimbursement basis and are recorded as a reduction of remediation expenses when earned. Remediation expenses, as incurred, flow through the statement of net position as a reduction of Remediation Obligation. Environmental cleanup costs consist of consulting, contractors, and employees directly involved with the remediation process. Indirect costs associated with remediation efforts are included in general and administrative expenses.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents (See Note 2)
   It is the Port's policy to invest all temporary cash surpluses. These are classified as cash and cash equivalents on the statement of net position. For purposes of the statement of cash flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments
   All investments are stated at fair value in accordance with generally accepted accounting principles. Interest is recognized in non-operating revenues as earned. Changes in the fair value of investments are also included in non-operating revenues (expenses). Unrealized gains and losses are recognized on the books as of the statement of net positions date.

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

   Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Accounts receivable that are written off are charged directly against earnings when they are determined by the proper Port official to be uncollectible. Use of this method does not result in a material difference from the reserve method required by generally accepted accounting principles.

4. Inventories
   The Port maintains a small inventory of office supplies and maintenance parts. The amounts held in inventory are immaterial to the financial statements as a whole. Parts and supplies are expensed as purchased and no inventory of these items is maintained.

5. Amounts Due From Other Governments
   These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

6. Capital Assets and Depreciation (See Note 4)
   Major expenses for capital assets, including major repairs that increase the useful lives of capital assets are capitalized, if the purchase price exceeds $5,000. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. Capital assets are stated at historical cost. Donated capital assets are reported at acquisition value. Depreciation of capital assets is computed using the straight line method, based on estimated useful lives. Depreciation expense is charged to operations to allocate the costs of capital assets over their estimated useful lives. Standard useful lives defined by the Port are:

Buildings, Structures and Improvements	10-50 years
Marina Equipment	10 years
Vehicles	5-7 years
Computer Equipment/Software	5 years
Other Equipment	10 years

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 interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

7. Compensated Absences
   Compensated absences are absences for which employees will be paid, such as vacation. The Port records unpaid leave for compensated absences as an expense and liability when incurred. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement or death.

   Employee absences are funded from current revenues when taken. Unused vacation balances may be carried over to the next year. Costs are expensed when incurred and unused vacation time is accrued at year-end. The Port does not record accumulated unused sick leave. Sick leave is forfeited upon termination.

8. Long-Term Debt (See Note 7)

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

NOTE 2 – CASH AND CASH EQUIVALENTS

Deposits
The Port of Ridgefield Treasurer is the custodian for all Port funds. The Treasurer maintains the accounts of the Port at Banner Bank and Umpqua Bank. The Port's deposits are covered by federal depository insurance and are held at institutions approved by the State of Washington as public depositaries. The deposits are further insured under the Washington State's Public Deposit Protection Act.

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Port does not have a policy regarding custodial credit risk related to deposits. However, none of the Port's deposits are exposed to custodial credit risk.

The Port Treasurer was holding a total of $7,300,822 in cash and cash equivalents at December 31, 2017.

Investments
As required by state law, all investments of the Port's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or negotiable certificates of deposit with Washington State banks and savings and loan institutions. All temporary investments are stated at fair value.

The Port invests its surplus cash according to a policy adopted by the Commission in Resolution 00-89 on June 28, 2000, and amended by Resolution 02-115, 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. The Port Treasurer uses a strategy of investing surplus funds in a mix of investment instruments, including: short and intermediate term bonds of the U.S. Government or its Agencies that may be held to maturity, certificates of deposit at regulated Washington banks, and mutual funds of U.S. Government Securities managed by professional fund managers.

At December 31, 2017, the Port held no investments.

NOTE 3 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

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

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

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2017 was $0.1986 per $1,000 on an assessed valuation of $2,693,898,438 for a total regular levy of $534,903.

NOTE 4 –CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2017, was as follows:

	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital assets, not being depreciated:				
Land	$8,777,030	$8,079	3,496,298	$5,288,811
Right of way	679,414	-	-	679,414
Construction in progress	4,987,340	5,215,936	7,107,399	3,095,877
Intangible - Mitigation Credits	51,200	-	-	51,200
Total capital assets, not being depreciated	14,494,984	5,224,015	10,603,697	9,115,302
Capital assets, being depreciated:				
Buildings and Improvements	3,740,067	7,209,126	-	10,949,193
Machinery and Equipment	228,556	-	12,930	215,626
Total capital assets being depreciated	3,968,623	7,209,126	12,930	11,164,819
Less accumulated depreciation for:				
Buildings and Improvements	657,283	164,059	-	821,342
Machinery and Equipment	154,688	7,757	12,930	149,515
Total accumulated depreciation	811,971	171,816	12,930	970,857
Total capital assets, being depreciated, net	3,156,652	7,037,310	-	10,193,962
Total capital assets	$17,651,636	$12,261,325	$ 10,603,697	$19,309,264

*The decrease in land is movement of a capital asset to asset held for sale.

Construction Commitments

The Port has no active construction commitments as of December 31, 2017.

NOTE 5 – PENSION PLANS

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

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ 473,962
Deferred outflows of resources	74,447
Deferred inflows of resources	92,103
Pension expense/expenditures	30,492

State Sponsored Pension Plans

Substantially all Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state

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

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

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

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

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

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

Contributions

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

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

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

<u>Contributions</u>

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

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

Employee PERS Plan 3		varies
Total	**12.70%**	**7.38%**

The Port's actual PERS plan contributions were $36,031 to PERS Plan 1 and $39,735 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

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

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

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- For all plans, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average remaining service lives calculation was revised.

Discount Rate

For both years, the discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

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

Sensitivity of the Net Pension Liability/ (Asset)

The table below presents at December 31, 2017, the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	328,963	270,042	219,004
PERS 2/3	549,381	203,920	(79,135)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the Port reported a total pension liability of $473,962, respectively, for its proportionate share of the net pension liabilities as follows:

Plan	Liability or Asset
PERS 1	$ 270,042
PERS 2/3	203,920

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.00583%	0.00569%	-0.00014%
PERS 2/3	0.00597%	0.00587%	-0.00010%

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

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

Pension Expense

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

	Pension Expense
PERS 1	$ 9,012
PERS 2/3	21,480

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (10,077)
Contributions subsequent to the measurement date	17,341	-
TOTAL	$ 17,341	$ (10,077)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 20,662	$ (6,707)
Net difference between projected and actual investment earnings on pension plan investments	-	(54,360)
Changes of assumptions	2,166	-
Changes in proportion and differences between contributions and proportionate share of contributions	14,491	(20,959)
Contributions subsequent to the measurement date	19,787	-
TOTAL	$ 57,106	$ (82,026)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 20,662	$ (6,707)
Net difference between projected and actual investment earnings on pension plan investments	-	(64,437)
Changes of assumptions	2,166	-
Changes in proportion and differences between contributions and proportionate share of contributions	14,491	(20,959)
Contributions subsequent to the measurement date	37,128	-
TOTAL	$ 74,447	$ (92,103)

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

Year ended December 31:	PERS 1	PERS 2/3
2018	$ (6,812)	$ (27,916)
2019	2,151	6,869
2020	(499)	(4,016)
2021	(4,917)	(22,471)
2022	-	1,230
Thereafter	-	1,597

NOTE 6 – RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance. The Port maintains insurance against most normal hazards for commercial automobile, property loss and general liability.

The Port is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2016, there are 524 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is $10 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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

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

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

NOTE 7 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

The Port receives government loans and other notes to finance the purchase and construction of capital assets and remediation activity. It has received government loans from the Community Economic Revitalization Board (CERB) and the State Department of Ecology (DOE) for construction of capital projects and remediation associated with the Lake River Site. It has also entered into notes with private parties to provide for financing and construction of capital projects. These loans are payable from the revenues of the Port and are unsecured.

Government loans and notes payable outstanding at year-end are as follows:

Name of Issuance	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/17 Debt Outstanding	Installment Amount
1997 CERB Loan	7/1/1997	7/1/2018	3%	419,000	$ 20,950	$25K to $21K
Remediation Loan L1400017	7/1/2014	7/1/2070	0%	442,133	442,133	$3K, deferred
Remeditaion Loan L1300009	8/9/2012	7/1/2064	0%	2,950,223	2,950,223	$37K, deferred
Remediation Loan L1200004	8/9/2012	7/1/2064	0%	1,000,000	1,000,000	$12K, deferred
Total Loans and Notes					$ 4,413,306	

Annual debt service requirements to maturity for government loans and notes payable are as follows:

Government Loans and Private Notes

	Principal	Interest	Total Requirements
2018	$ 20,950	$ 629	$ 21,579
2019	-	-	-
2020	36,878	-	36,878
2021	49,378	-	49,378
2022	49,378	-	49,378
2023-2027	263,765	-	263,765
2028-2032	275,015	-	275,015
2033-2037	275,015	-	275,015
2038-2042	275,015	-	275,015
2043-2047	275,015	-	275,015
2048-2052	275,015	-	275,015
2053-2057	275,015	-	275,015
2058-2062	275,015	-	275,015
2063-2067	1,867,594	-	1,867,594
2068-2070	200,258	-	200,258
	$ 4,413,306	$ 629	4,413,935

B. Bonds

The Port issued revenue bonds in 2016 for the purpose of financing the construction of a building. During 2016 the Port had drawn only $75,000 of these bonds. The remainder of $4,475,000 was drawn down during 2017. Revenue bonds are secured by the lease revenues generated by the property. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. The bonds were approved created by resolution, adopted by the commissioners, and financed from tax levies. Bonds outstanding at December 31, 2017, are as follows:

Name of Issuance	Original Issue Amount	Purpose	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2014 LTGO Bonds	750,000	Capital	12/1/2014	12/1/2034	Adjusted every five years, 3.4% at 12/31/14	666,303
Total General Oblig Bonds	$ 750,000					$ 666,303
2016 Revenue Bonds	4,500,000	Capital	12/1/2016	7/15/2031	2.99%	4,391,449
	$ 4,500,000					$ 4,391,449

Annual debt service requirements to maturity for general obligation bonds are as follows:

	Principal	Interest	Total Requirement
2018	$ 29,418	$ 22,721	$ 52,139
2019	30,441	21,698	52,139
2020	31,441	20,698	52,139
2021	32,593	19,546	52,139
2022	33,726	18,413	52,139
2023-2027	187,007	73,688	260,695
2028-2032	221,859	38,836	260,695
2033-2034	99,818	4,341	104,280
	$ 666,303	$ 219,941	$ 886,365

Annual debt service requirements to maturity for revenue bonds are as follows:

	Principal	Interest	Total Requirement
2018	$ 266,101	$ 127,677	$ 393,778
2019	274,167	119,611	393,778
2020	282,478	111,300	393,778
2021	291,041	102,737	393,778
2022	299,863	93,915	393,778
2023-2027	1,641,301	327,590	1,968,891
2028-2031	1,336,498	74,538	1,411,036
	$ 4,391,449	$ 957,368	$ 5,348,817

The Port's legal limit of indebtedness for general obligation debt is .375% of assessed property value without a vote and .75% with a vote of the taxpayers. At December 31, 2017, the nonvoted and voted remaining capacity was $11,276,356 and $22,552,712.

Bond Covenants:

The Port's bond covenants require the District to maintain certain reserve accounts. The Debt Service Reserve fund is required to keep the lesser of the maximum annual debt service, 1.25 times average annual debt service or 10% of the proceeds of the bond. This requirement of $393,778 was established from Port reserves with the first bond draw.

Additionally, the 2016 bond covenants required a $395,000 transfer from Port reserves to cover any operating deficiencies. Further, the 2016 bond covenants require the maintenance reserve fund to be funded with transfers from the revenue fund totaling $90,000 over a five-year period.

At December 31, 2017, the balances in these accounts were as follows:

		12/31/2017
Revenue Fund	$	3,092
Debt Service Fund		8,062
Debt Service Reserve Fund		393,977
Operating Reserve Fund		397,201
Maintenance Reserve Fund		7,501
Project Fund		438,864
	$	1,248,697

The 2016 Revenue bond resolution requires that net revenues of the District at least equal 110% of debt service of the Bond. At December 31, 2017, the Port's debt service coverage ratio was 119%.

The 2014 GO Bond document also requires a certain debt service coverage ratio to be met. The Lender has waived the terms of this agreement, as this is a general obligation bond.

C. Changes in Long-Term Liabilities

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

	1/1/17	Additions	Reductions	12/31/17	Due Within One Year
Notes and loans payable	$ 41,900	$	$ 20,950	$ 20,950	$ 20,950
Bonds payable	771,664	4,475,000	188,912	5,057,752	295,519
Interagency remediation loan	4,352,417	39,939	-	4,392,356	-
Other postemployment benefits	397,804	44,319	4,147	437,976	-
Compensated absences	44,317	8,653	4,432	48,538	4,854
Pension liability	612,186	-	138,224	473,962	-
Pollution remediation obligation	165,510	-	102,323	63,187	-
Total long-term liabilities	$ 6,385,798	$ 4,567,911	$ 458,988	$ 10,494,721	$ 321,323

NOTE 8 – CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all legally enforceable material liabilities. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

The Port participates in a business environment that contains many governmental rules and regulations. The imposition of new regulations can pose significant financial risk and uncertainty to the Port. Examples include:

- Changes in environmental regulations that increase Port response costs and or reduce the net usable land owned by the Port
- Changes in local zoning and development codes that control and restrict land use and development density
- Adverse land use decisions
- Increased system development charges, transportation impact fees, utility fees, taxes and levies
- Changes in accounting standards, and other policies, procedures and reporting requirements and associated fees
- Changes in regulations that increase Port development and operating costs such as prevailing wage, building codes, climate change, insurance requirements, etc.
- Regulatory ambiguity and interagency conflicts, permitting and regulatory agency staff reductions and reduced levels of service
- Changes in Port investment policies and strategies

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

NOTE 9 – POLLUTION REMEDIATION OBLIGATIONS

The remediation of the Lake River (Pacific Wood Treating or PWT) site within the Port District of Ridgefield, Washington is required by the United States Environmental Protection Agency (EPA) pursuant to its authority under the Resource Conservation and Recovery Act of 1976. The EPA transferred oversight of the cleanup to the State Department of Ecology under the Model Toxics Control Act, Ch 70.105D RCW. The Port is one of several parties named or considered a potentially responsible party.

A budget for cleanup costs has been prepared by the Port's environmental engineer. This budget is the basis for the estimates for the year ending December 31, 2017, in the amount of $2,106,250. This is measured at current value.

On November 5, 2013, Consent Decree Number 13-2-03830-1 (Consent Decree) was filed in Clark County, Washington. The Consent Decree is an agreement between the Port and Ecology as to what actions it will take to complete remedial activities at the site. The remedial activities included dredging sediments in Lake River and Carty Lake and capping the Port's Railroad Avenue property. The Port's Railroad Avenue property was capped in 2013. The Port started the dredging work in Lake River and Carty Lake in 2014 and completed the work in 2015. There is ongoing monitoring and reporting associated with this work and these ongoing costs have been included in the December 31, 2017, estimate.

On December 8, 2014, the Port entered into Agreed Order DE 11057 (Agreed Order) with Ecology. The Agreed Order required the Port to sample properties adjacent to the Lake River Site for wood treating chemicals associated with the former PWT operations. This is considered the "Off-Property" portion of the PWT site. The Agreed Order required the Port to complete a remedial investigation and feasibility study (RI/FS) for the Off-Property Portion. Investigation work was completed in 2015. Elevated concentrations of constituents associated with wood treating chemicals were discovered. Ecology determined that remediation of properties adjacent to the Lake River

Site was necessary. The Port and Ecology originally determined that 28 properties required remediation. In 2016, twenty properties were remediated. The remaining eight properties were remediated in 2017.

In 2016, Ecology determined that the full extent of Off-Property impacts had not been fully characterized. The sampling area was expanded to the east and north, and characterization work is ongoing. Sampling is expected to be completed in early spring 2018. Included in the December 31, 2017 estimate is a range of possible remediation costs for cleaning up additional properties in the expanded sampling areas. Variability in the estimate is associated with the fact that the full extent of the properties requiring remediation has not been determined.

Groundwater monitoring costs have very little variability. The Port is required to complete groundwater monitoring in 2016, and then again in 2018. If groundwater conditions remain the same in 2018, the Port will advocate for another round of groundwater sampling in 2023. Costs for ongoing groundwater monitoring have been included in the December 31, 2017, estimate.

This estimated liability was prepared using the Expected Cash Flow Technique, which measures the liability as the sum of probability weighted amounts in a range of possible estimated amounts. This is an estimate only and potential for change exists resulting from price increases or reductions, technology or changes in applicable laws or regulations. The estimates and assumptions will be re-evaluated on an annual basis.

The State of Washington is considered a potentially responsible party (PRP) under GASB 49. The State entered into binding agreements with Pacific Wood Treating Company (former tenant) that allowed or permitted release of runoff water onto state owned property. Through December 2010, the State has contributed 65% of the total cleanup costs. The State contributed 90% for the 2011 and 2012 grant/loan agreements. For the most recent grant/loan agreements, the State has committed to contribute 97%. The State's total contributive share is not yet realized or realizable. Therefore, the liability recognized on the Statement of Net Assets is reduced by the expected recoveries. The Port's estimated share of the Pollution Remediation Obligation is $63,187 at December 31, 2017.

		12/31/2017
Total Remediation Expected Obligation	$	2,106,250
Estimated Recoveries from State of Washington		2,043,063
Port of Ridgefield's Remediation Obligation	$	63,187

Ecology has committed to finance the Port's share of remediation through a series of advances called biennial loan agreements. The most recent agreement contains a loan of a maximum of $450,000, zero percent interest and a 45-year loan term with payments starting in July 1, 2025. The balance on the loan at December 31, 2017, is $442,133.

A substantial part of the Port's operating costs relates to the management of the environmental cleanup project. In 2017, $32,468 of Port operating costs were eligible for grant reimbursement. The grant funds received as reimbursement for the Port's operating costs are recognized as cleanup project management fee revenue by the Port. This revenue is included in Other Non-Operating Revenues on the Statement of Revenues, Expenses and Changes in Fund Net Position.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description:

In addition to the pension benefits described in Note 5, the Port participates in a cost sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. This plan is administered by the Health Care Authority (HCA) per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability. Benefits are offered to retirees at a subsidized rate.

The benefits are provided in accordance with a substantive plan, in which the plan terms are understood by the employers and plan member, but not formalized in a contract or plan document. The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong.

As of year-end, there were two Port employees that had retired and were receiving these benefits.

This OPEB plan does not issue a stand-alone financial report but it is included in the report of the State of Washington, Office of Financial Management. This report can be obtained from the following website: http://www.ofm.wa.gov/cafr/.

Funding Policy:

This plan is not currently funded. The Port was required to contribute $51,412 at December 31, 2017, but only contributed $4,417. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of $437,976 is the actuarial accrued liability recognized on the statement of net position at December 31, 2017.

The total unfunded actuarial liability (UAAL) is $463,475. The covered payroll (annual payroll of active employees covered by the plan) at December 31, 2017, was $687,819 and the ratio of the UAAL to the covered payroll was 67 percent.

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Annual OPEB Cost and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2017	$ 44,319	0%	$ 437,976
2016	53,515	0%	397,804
2015	55,466	0%	348,201

The Port's annual other postemployment benefit (OPEB) cost (expense) is determined based on the annual required contribution of the employer (ARC), an amount actuarially determine in accordance with the Alternative measurement method parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB obligation.

		2017
Actuarial Required Contribution (ARC)	$	51,412
Interest on Net OPEB Obligation (NOO)		15,912
Adjustment to NOO		(23,005)
Annual OPEB Cost		44,319
Employer Contributions		4,147
Increase (Decrease) in NOO		40,172
Net OPEB Obligation January 1		397,804
Net OPEB Obligation December 31	$	437,976

Actuarial Methods and Assumptions:
The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective.

The Port used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.4 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2015, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2017. The results were based on grouped data with four active groupings and four inactive groupings. These assumptions are individually and collectively reasonable for the purposes of this valuation. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	1/1/2017
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	3.75%
Projected Payroll Growth	3.75%
Investment Return	N/A
Healthcare Cost Trend Rate - Initial	7.0%
Healthcare Cost Trend Rate - Ultimate	4.9%
Amortization Period - Open	30

NOTE 11 – LEASES

At December 31, 2017, the Port has two leases in which is acting as Lessor.

In October, 2013, the Port entered into a five year lease with two five year extension terms. The Port assumed that only one of the five year extensions would be exercised. The present value assumed to be implicit in the lease was 3.0%. Monthly payments under this lease range from $6,079 to $6,261.

In May 2016, the Port also entered into a 10 year lease that became effective July 1, 2017. The lease has a five year renewal option that extends the lease to June 30, 2032. The Port assumed that this lease option would be exercised. The present value implicit in the lease was 6.9%. Monthly payments received under this lease range from $46,891 to $66,227. This lease revenue secures the revenue bonds.

During 2017, the Port recognized lease revenue of $129,930 and interest revenue of $243,031.

The Port's schedule of future payments included in the measurement of the lease receivable is as follows:

Lease Receivables

	Principal	Interest	Total Requirements
2018	$ 196,879	$ 394,612	$ 591,491
2019	222,888	417,755	640,643
2020	266,618	404,462	671,080
2021	314,279	387,308	701,587
2022	367,046	367,950	734,996
2023-2027	2,280,604	1,434,410	3,715,014
2028-2032	3,005,071	493,708	3,498,779
	$ 6,653,385	$ 3,900,205	$ 10,553,590

NOTE 12 – OTHER DISCLOSURES

A. Industrial Development Corporation of the Port of Ridgefield

The Industrial Development Corporation of the Port of Ridgefield, a public corporation, was authorized in 2001 to facilitate the issuance of tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they are issued. The Industrial Development Corporation did not authorize issuance of any bonds during the year ended December 31, 2016 or 2015.

B. Stewardship, Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions.

D. Implementation of New Governmental Accounting Standards Board Pronouncements

At December 31, 2017, the Port implemented the following GASB Statement:

GASB 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the rights to use an underlying asset.

As a result of implementing this GASB, the Port has recorded the Lease Receivable and Deferred Inflows of Resources; Amounts related to Leases in the amounts $6,665,073. The Port has also recorded $243,031 of Interest Earnings from the leases, reflected within the Statement of Revenues, Expenses, and Changes in Net Position.

E. Prior Period Adjustment

The Port has recorded $10,542 as a Prior Period Adjustment. The amount relates to the removal of a 2016 Grant Receivable that was applied as match versus billed to the granting agency.

PORT OF RIDGEFIELD

Required Supplementary Information

Other Post Employment Benefit

Schedule of Funding Progress

December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liabilities (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2015	$ -	514,483	514,483	0%	609,171	84%
1/1/2016	-	522,367	522,367	0%	670,668	78%
1/1/2017	-	463,475	463,475	0%	687,819	67%

Port of Ridgefield

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30

Last Four Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.005691%	$ 270,042	$ 670,059	40.30%	61.24%
2016	0.005833%	313,260	644,013	48.64%	57.03%
2015	0.005270%	275,670	522,924	52.72%	59.10%
2014	0.006313%	318,020	628,680	50.59%	61.19%

Port of Ridgefield

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30

Last Four Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.005869%	$ 203,920	$ 606,631	33.62%	90.97%
2016	0.005973%	300,736	581,202	51.74%	85.82%
2015	0.005305%	189,551	470,634	40.28%	89.20%
2014	0.006598%	133,369	570,226	23.39%	93.29%

Port of Ridgefield

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Employer Contributions

PERS 1

As of December 31

Last Four Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	$ 36,031	$ (36,031)	$ -	$ 647,806	5.56%
2016	33,574	(33,574)	-	628,578	5.34%
2015	28,388	(28,388)	-	569,917	4.98%
2014	25,851	(25,851)	-	578,150	4.47%

Port of Ridgefield

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Schedule of Employer Contributions

PERS 2/3

As of December 31

Last Four Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	$ 39,735	$ (39,735)	$ -	$ 584,377	6.80%
2016	35,017	(35,017)	-	567,465	6.17%
2015	28,726	(28,726)	-	526,011	5.46%
2014	25,609	(25,609)	-	521,421	4.91%

Port of Ridgefield

Notes to Required Supplemental Information - Pension

As of December 31

Last Four Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3: Covered payroll

Covered payroll has been presented in accordance with GASB 82, *Pension Issues.* Covered payroll includes all payroll on which a contribution is based.

Note 4: Change in contribution rate

PERS 1

From this Date	Through this Date	Rate	
9/1/2013	6/30/2015	9.21%	
7/1/2015	6/30/2017	11.18%	
7/1/2017	current	12.70%	*

* Employer contribution rate includes an administrative expense rate of 0.18%

PERS 2/3

From this Date	Through this Date	Rate	
9/1/2013	6/30/2015	9.21%	
7/1/2015	6/30/2017	11.18%	
7/1/2017	current	12.70%	*

* Employer contribution rate includes an administrative expense rate of 0.18%