

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Port of Port Angeles
Clallam County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004316

Issue Date
September 27, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 27, 2010

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

***Report on Financial Statements and Federal Single Audit and
Passenger Facility Charges***

Please find attached our report on the Port of Port Angeles' financial statements, compliance with federal laws and regulations and compliance with requirements applicable to its passenger facility charge program.

We are issuing this report in order to provide information on the Port's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Federal Summary

Port of Port Angeles Clallam County January 1, 2009 through December 31, 2009

The results of our audit of the Port of Port Angeles are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Port qualified as a low-risk auditee under OMB Circular A-133.

**Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters in Accordance
with *Government Auditing Standards***

Port of Port Angeles
Clallam County
January 1, 2009 through December 31, 2009

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

We have audited the basic financial statements of the Port of Port Angeles, Clallam County, Washington, as of and for the year ended December 31, 2009, and have issued our report thereon dated September 15, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Port's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

September 15, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**Port of Port Angeles
Clallam County
January 1, 2009 through December 31, 2009**

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

COMPLIANCE

We have audited the compliance of the Port of Port Angeles, Clallam County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. The Port's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Port's compliance with those requirements.

In our opinion, the Port complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Port's internal

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

September 15, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance

**Port of Port Angeles
Clallam County
January 1, 2009 through December 31, 2009**

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

COMPLIANCE

We have audited the compliance of the Port of Port Angeles, Clallam County, Washington, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2009. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port's compliance with those requirements.

In our opinion, the Port of Port Angeles complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the Port's internal

control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information management, the Board of Commissioners and the Federal Aviation Administration. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 15, 2010

Independent Auditor's Report on Financial Statements

**Port of Port Angeles
Clallam County
January 1, 2009 through December 31, 2009**

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

We have audited the accompanying basic financial statements of the Port of Port Angeles, Clallam County, Washington, as of and for the year ended December 31, 2009, as listed on page 11. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Port Angeles, as of December 31, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 12 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Passenger Facility Charges is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. These schedules are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 15, 2010

Financial Section

**Port of Port Angeles
Clallam County
January 1, 2009 through December 31, 2009**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2009
Statement of Revenues, Expenses and Changes in Net Assets – 2009
Statement of Cash Flows – 2009
Notes to Financial Statements – 2009

SUPPLEMENTAL INFORMATION

Schedule of Passenger Facility Charges – 2009
Notes to the Schedule of Passenger Facility Charges – 2009
Schedule of Expenditures of Federal Awards – 2009
Notes to the Schedule of Expenditures of Federal Awards – 2009

**Port of Port Angeles
Management's Discussion and Analysis
For the Year Ended December 31, 2009**

INTRODUCTION

The following is the Port of Port Angeles' (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar year ended December 31, 2009. It provides an introduction to the Port's 2009 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

The Port adopted the Governmental Accounting Standards Board (GASB) Statement # 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments for the year ended December 31, 2004. The goal is to provide readers an objective and easily understandable overview of the Port's financial performance.

Overview of the Financial Statements

The financial section of the annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic statements include: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets describe whether the Port is better or worse off as a result of the year's activities.

The Statement of Net Assets presents information on all of the Port of Port Angeles' assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in Net Assets may serve as an indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets show how the Port's Net Assets changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements

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

FINANCIAL REPORT

Financial Highlights

- The assets of the Port exceeded its liabilities (Net Assets) at the close of calendar year 2009 by \$ 53.5 million. Of this amount, \$ 38.1 million is invested in capital assets, net of related debt. The remaining balance of \$ 15.4 million in unrestricted net assets may be used in the Port's continuing operations.
- In 2009 the Port's Net Assets increased by approximately \$ 851,000; this improvement in the Port's financial position (presented below) was driven primarily by tax levy receipts of \$1.3 million and receipts of federal grants in the amount of \$1.6 million. These receipts are used exclusively for capital improvements; the tax levy used for improvements throughout the Port and the federal grants from Federal Aviation Administration used for improvements at the Fairchild International Airport
- The Port's total long term debt decreased by \$ 601,250 in 2009; this decrease was a result of debt payments made throughout 2009; there were no new debt issuance in 2009

Financial Position Summary

The Statement of Net Assets presents the financial position of the Port at the close of calendar year 2009. The Statement includes all Port assets and liabilities. Net Assets serve as an indicator of the Port's financial position. A condensed schedule of assets, liabilities, and net assets follows:

Port of Port Angeles ' Net Assets	2009	2008
Current Assets	\$ 4,098,120	\$ 6,435,430
Noncurrent Assets	58,505,560	56,090,980
Total Assets	\$ 62,603,680	\$ 62,526,410
Current Liabilities	\$ 1,648,596	\$ 1,790,744
Noncurrent Liabilities	7,408,843	8,040,552
Total Liabilities	\$ 9,057,439	\$ 9,831,296
Net Assets Invested in Capital Assets, Net of Related Debt	\$ 38,152,526	\$ 37,277,141
Net Assets, Unrestricted	15,393,715	15,417,973
Total Net Assets	\$ 53,546,241	\$ 52,695,114

The Statement of Revenues, Expenses and Other Changes in Net Assets records the annual changes in Net Assets that occur as a result of inflow of Revenues and the Outflow of Expenses.

Port of Port Angeles' Statement of Revenues, Expenses, and Changes in Net Assets	2009	2008
Operating Revenues:		
Marine Terminal	\$ 910,397	\$ 683,670
Log Handling	480,722	723,794
Airports	313,773	305,602
Marinas, Boatyard, Launch Ramps	2,559,401	2,651,680
Property Rentals	932,269	916,249
Operating Revenues	\$ 5,196,562	\$ 5,280,995
Non-Operating Revenues	\$ 1,970,417	\$ 2,209,114
Total Revenues	\$ 7,166,979	\$ 7,490,109
Operating Expenses:		
Marine Terminal	\$ 653,003	\$ 729,787
Log Handling	1,178,587	1,259,227
Airports	845,179	672,987
Marinas, Boatyard, Launch Ramps	2,116,918	2,173,314
Property Rentals	779,875	634,068
Unallocated Settlement	0	198,044
Depreciation	1,923,451	1,545,539
Operating Expenses	\$ 7,497,014	\$ 7,212,966
Non-Operating Expenses	\$ 395,634	\$ 419,060
Total Expenses	\$ 7,892,648	\$ 7,632,026
Operating Income (Loss)	\$ (725,669)	\$ (141,917)
Capital Contributions	\$ 1,586,425	\$ 844,507
Special Item:		
Gain(Loss) on Sale of Capital Assets	(9,629)	560,088
Increase in Net Assets	\$ 851,127	\$1,262,677
Net Assets – January 1	\$52,695,114	\$51,432,437
Net Assets – December 31	\$53,540,242	\$52,695,114

Additional information on the Port's capital assets activity may be found in the notes presented in the Port's financial statements.

The most significant financial events in 2009 for the Port were receipts of Federal Aviation Administration grants in the amount of \$ 1,594,000 and receipt of general levy taxes in the amount of \$1,301,000. Both of these events were reported in the Other Revenues, Expenses, Gains, and Losses section of Statement of Revenues, Expenses, and Changes in Net Assets.

With respect to significant changes in receipts in Port Operating Divisions, there was significant improvement in the Marine Terminals division receipts. In addition, the Marine Terminals Division showed a significant increase in net financial return when compared to 2008 in the amount of approximately \$ 303,500 (without depreciation and allocated expenses). The primary reason for this improvement was increased volume in tanker traffic.

The Log Handling division's receipts declined by 33 %. On the other hand, the expenses in the Log Handling division were reduced by 6 %, thus partially offsetting the excess of expenses over revenues in this division. The primary reason for the reduction in receipts was a downturn in volumes at the facility.

PORT OF PORT ANGELES
Statement of Net Assets
As Of December 31, 2009

	<u>2009</u>
CURRENT ASSETS	
Cash and cash equivalents	\$2,008,878
Accounts receivable, less allowance for doubtful accounts of \$ 18,164	915,000
Contracts and current portion of note receivable	4,617
Prepayments and other current assets	335,052
Restricted Assets:	
Cash and cash equivalents	659,171
Grants receivable	110,418
Taxes receivable	<u>64,983</u>
Total Current Assets	\$4,098,120
NONCURRENT ASSETS	
Investments	\$3,598,270
Restricted Assets:	
Investments	8,499,723
Capital Assets, Net	46,187,619
Other Noncurrent Assets:	
Contracts and note receivable, net of current portion	\$35,180
Deferred charge resulting from advance refunding of Revenue and G.O. Bonds, net of accumulated amortization of \$ 1,368,922	3,410
Other assets	<u>181,358</u>
Total Noncurrent Assets	<u>\$58,505,561</u>
TOTAL ASSETS	<u>\$62,603,680</u>
CURRENT LIABILITIES	
Accounts payable	\$280,213
Accrued expenses	260,084
Accrued vacation and sick pay	437,933
Accrued interest	44,115
Current portion of long-term debt	<u>626,250</u>
Total Current Liabilities	<u>\$1,648,596</u>
NONCURRENT LIABILITIES	
Long-Term Debt, Net of Current Portion	<u>\$7,408,843</u>
TOTAL LIABILITIES	<u>\$9,057,439</u>
NET ASSETS	
Invested in Capital assets, net of related debt	\$38,152,526
Unrestricted	<u>15,393,715</u>
TOTAL NET ASSETS	<u>\$53,546,241</u>

The Accompanying Notes Are An Integral Part Of This Statement

PORT OF PORT ANGELESStatement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended December 31, 2009

	<u>2009</u>
Operating Revenues	
Marine Terminals	\$910,397
Log Handling	480,722
Airports	313,773
Marinas, Boatyard and Launch Ramps	2,559,401
Property Rentals	<u>932,269</u>
Total Operating Revenues	<u>\$5,196,561</u>
Operating Expenses	
General Operations	\$3,362,869
Maintenance	528,854
General and Administrative	1,681,840
Depreciation (including \$331,935 depreciation on donated assets)	<u>1,923,451</u>
Total Operating Expenses	<u>\$7,497,014</u>
Operating Income (Loss)	<u>(\$2,300,452)</u>
Non Operating Revenues (Expenses)	
Taxes levied for general levy	\$1,301,066
Passenger facility charges	39,083
Income from sale of timber resources on State and County property	125,110
Interest income	473,781
Interest expense	(395,634)
Miscellaneous revenue (expense)	<u>31,377</u>
Total Non Operating Revenues(Expenses)	<u>\$1,574,784</u>
Income(loss) before other revenues,expenses, gains, and losses	<u>(\$725,669)</u>
Capital Contributions	\$1,586,425
Special Item: Gain (loss) on retirement of capital assets	<u>(9,629)</u>
Increase in Net Assets	<u>\$851,127</u>
Net Assets - January 1	\$52,695,114
Net Assets - December 31	<u>\$53,546,241</u>

The Accompanying Notes Are An Integral Part Of This Statement

PORT OF PORT ANGELES
Statement of Cash Flows
For The Fiscal Year Ended December 31, 2009

	<u>2009</u>
Cash flows from operating activities	
Cash received from customers	\$4,721,345
Less: Cash paid to employees and suppliers	<u>(5,626,470)</u>
Cash provided by operating activities	<u>(\$905,125)</u>
Cash flows from noncapital financing activities	<u> -- 0 --</u>
Cash flows from capital and related financing activities	
Proceeds from sale of capital assets	\$2,613
Purchase of property	0
Proceeds from debt issuance	0
Principal payments on debt instruments	(601,250)
Interest paid on debt instruments	(381,452)
Acquisition and construction of capital assets	(2,253,562)
Cash received from state and federal grants	2,146,332
Cash received from property taxes for payment on debt instruments	<u>1,285,488</u>
Cash provided by capital and related financing activities	<u>\$198,169</u>
Cash flows from investing activities	
Sales of investments	\$14,650,000
Purchases of investments	(16,823,954)
Interest received on investments	346,181
Payment received on contracts receivable	5,669
Cash used by investing activities	<u>(\$1,822,104)</u>
Net increase (decrease) in cash and cash equivalents	<u>(\$2,529,060)</u>
Cash and cash equivalents at beginning of year	<u>5,197,109</u>
Cash and cash equivalents at end of year	<u>\$2,668,049</u>

The Accompanying Notes Are An Integral Part Of This Statement

PORT OF PORT ANGELES

Statement of Cash Flows

Reconciliation of (a) Operating Income to
(b) Net Cash Provided by Operating Activities for Year of 2009

2009

(a) Operating Income (\$2,300,452)

(b) Net Cash Provided by Operating Activities

Adjustments to reconcile operating income
to net cash provided by operating activities:

Depreciation \$1,923,451

Changes in Assets and Liabilities:

(Increase) Decrease in Accounts Receivable (383,628)

(Increase) Decrease in Prepayments 1,865

(Increase) Decrease in Other Assets 19,065

Increase (Decrease) in Accounts Payable 17,196

Increase (Decrease) in Other Accrued Expenses (182,622)

Net Cash Operating Activities (\$905,125)

Non-Cash Investing and Financing Activities

Increase (Decrease) in Fair Value of Investments \$98,270

The Accompanying Notes Are An Integral Part Of This Statement

**Port of Port Angeles
Notes to Financial Statements
For the Year Ended December 31, 2009**

1. Summary of significant accounting policies

The financial statements of the Port of Port Angeles (the Port) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Port's accounting policies are described below:

Reporting Entity

The Port is a municipal corporation of the State of Washington created in 1923 under provisions of the Revised Code of Washington (RCW) 53.04.010 et seq. The Port has geographic boundaries coextensive with Clallam County, Washington and is situated on the Port Angeles harbor.

The Port is independent from Clallam County government and is administered by a three-member Board of Commissioners elected by Clallam County voters. The Commission delegates administrative authority to an Executive Director and administrative staff to conduct operations of the Port. Clallam County does levy and collect taxes on behalf of the Port. Clallam County provides no funding to the Port. Additionally, Clallam County does not hold title to any of the Port's assets, nor does it have any right to the Port's surpluses.

The Port provides docks and wharves for waterborne commerce as well as marina and airport facilities. The Port also owns and manages significant industrial properties. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

Basis of accounting and presentation

The Port has elected to apply Financial Accounting Standards Board guidance issued after November 20, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

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(s).

Operating and Non-Operating Revenues and Expenses

Revenues from Marine Terminals, Log Handling Facilities, Airports, Marinas and Boatyard, and Property Rentals are charges for use of the Port's facilities and are reported as operating revenues. Expenses associated with these same divisions are reported as operating expenses.

Ad valorem tax levy revenues and other revenues and expenses generated from non-operating sources are classified as non-operating.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

Significant Risks and Uncertainties

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law. The Port also faces a concentration of credit risk wherein a significant portion of the Port's business is transacted with entities in the forest products industry.

Grants-in-aid assets

The Port periodically receives federal and state grants-in-aid funds for construction of certain facilities. Grants have been recognized as contributed capital in the accounting period when they become measurable and available. Depreciation on all assets is shown in the statement of revenues and expenses. Depreciation applicable to assets acquired with grants-in-aid funds is transferred from unrestricted equity from operations to restricted contributed capital from grants and donations. Effective January 1, 2000 the Governmental Accounting Standards Board (GASB) Statement 33, Accounting and Financial Reporting for Non-Exchange Transactions was adopted in the Port's financial statements, which changed the method in which contributed capital is displayed. Capital contributions are now shown as non-operating revenue

Ad valorem taxes

Ad valorem taxes received by the Port are recognized as revenue based upon the annual amount levied by the Port Commissioners. These taxes may be used for the acquisition or construction of facilities, for the retirement of general obligation bonds which were issued for the acquisition or construction of facilities, or for general Port operations.

Capital assets

Land, facilities and equipment are stated at cost except for contributed assets which are stated at the donor cost or appraised value of the contributed property. Depreciation is being provided by the straight-line method over the estimated useful lives of the related assets. The Port's policy is to capitalize all asset additions greater than \$1,000 and with an estimated useful life of more than five years.

The following useful lives are used in computing depreciation:

Buildings	5 years to 33 years
Improvements	5 years to 50 years
Machinery and Equipment	5 years to 20 years

It is the Port's policy to capitalize expenditures for betterments and major renewals and to charge ordinary maintenance and repair costs to operations as incurred.

Allocation of expenses

For purposes of reporting operational information, the Port allocated general and administrative expenses as follows:

One hundred percent of total general and administrative expenses was allocated to marine terminals, log handling facility, airports, boat havens, and property rentals. Expenses were allocated to specific operations using 50% of the ratio of operations revenues to total operating revenues plus 50% of the ratio of operations expenses to total operating expenses.

Cash Equivalents

For financial statement purposes, the Port considers all short-term investments, which primarily consist of certificates of deposit, U.S. Government agencies maturing in less than three months, and investments in government pools to be cash equivalents.

Cash Equivalents as of December 31, 2009 were as follows:

General Operating	\$ 2,008,878
Other Restricted Assets	<u>659,171</u>
Total, December 31, 2008	\$ 2,668,049

Accounts Receivable

Accounts Receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Accounts Receivable are written off when deemed uncollectible. Recoveries of Accounts Receivable previously written off are recorded when received. The allowance for doubtful accounts was \$ 18,164 at December 31, 2009 and \$ 114,488 at December 31, 2008.

Investments

The Port used quoted market prices to estimate the fair value of all investments. All gains and losses on investments were included as a change in the fair value of investments reported in the prior and current years. The Port does not have investments in debt securities.

Inventories

Inventories, which are included in prepayments and other current assets, are valued at cost, which approximates net realizable value, using the first-in, first-out method.

Compensated Absences Benefits

The Port accrues unpaid vacation and sick leave benefits as earned; benefits are payable upon termination, resignation, or retirement. Vacation leave, which may be accumulated up to 60 days, is paid at the rate of 100%. Sick leave, which may be accumulated up to 24 days, is paid at the rate of 75%. At December 31, 2009 the recorded liabilities for compensated absences totaled \$ 437,933.

Restricted Assets

Restricted Assets contain resources for construction and debt service. The current portions of related liabilities are shown as the Current Portion of Long Term Debt. The Restricted Assets are composed of the following:

Cash and Investments - Construction	\$ 9,158,894
Cash and Investments - Debt Service	\$ -0-

2. Investments and Deposits

Deposits

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

Investments

As of December 31, 2009 the Port had the following investments:

	Market Value
Washington State Investment Pool	\$ 1,589,701
U.S. Agency Securities	10,483,400
Port District Investment - located in Washington State	1,581,072
Time Deposits	<u>543,576</u>
Total Investments	<u>\$ 14,197,749</u>

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. Of the Port's total position of \$14,197,749 in 2009, \$ -0- is exposed to custodial collateral risk because the investments are held by the Port's brokerage firm, which is also the counterparty in those particular securities.

3. Property Taxes

The Clallam County Treasurer acts as an agent to collect property taxes levied in the county for the Port.

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

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

The Port's regular levy for 2009 was \$.15 per \$1,000 on an assessed valuation of \$ 8,587,834,547 (2008 assessment for 2009 collections) for a total regular levy of \$ 1,301,066.

4. Capital Assets and Depreciation

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable accounts.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of a significant operating unit or system, the original cost is removed from the Port's accounts; accumulated depreciation is charged with the accumulated depreciation related to the property sold; and the net gain or loss on disposition is credited or charged to income.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight line method with useful lives of 5 to 50 years.

Capital assets activity for the year ended December 31, 2009 was as follows:

Capital Assets, not being depreciated:				
Land	\$12,328,365	\$0	\$0	\$12,328,365
Work in Progress	<u>5,111,309</u>	<u>2,125,291</u>	<u>1,848,810</u>	<u>5,387,790</u>
Total Capital Assets, not being depreciated	\$17,439,674	\$2,125,291	\$1,848,810	\$17,716,155
Capital Assets, being depreciated:				
Buildings	\$10,596,729	\$14,532	\$0	\$10,611,261
Improvements	45,522,798	2,195,006	330,885	47,386,919
Machinery/Equipment	<u>4,227,140</u>	<u>68,627</u>	<u>31,634</u>	<u>4,264,133</u>
Total Capital Assets, being depreciated	\$60,346,667	\$2,278,165	\$362,519	\$62,262,313
Less: Accumulated Depreciation for:				
Buildings	(\$6,260,609)	(\$319,581)	\$0	(\$6,580,190)
Improvements	(22,563,230)	(1,694,179)	191,113	(\$24,066,296)
Machinery/Equipment	<u>(3,043,560)</u>	<u>(113,728)</u>	<u>12,924</u>	<u>(3,144,364)</u>
Total Accumulated Depreciation	(\$31,867,399)	(\$2,127,488)	\$204,037	(\$33,790,850)
Total Capital Assets, being depreciated, net	\$28,479,268			\$28,471,463
Total Net Capital Assets	<u>\$45,918,942</u>	<u>\$2,275,968</u>	<u>\$2,007,292</u>	<u>\$46,187,619</u>

The Port has 15 active construction projects as of December 31, 2009. At year-end the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
MT T-7 Bulkhead	\$42,224	\$15,766
MT T-3 Fendering/Piling Replacement	19,964	(40)
MT T-1 Hazardous Materials	98,569	
MT Replace Tumwater Creek Bridge	79,264	24,217
LY Drainage & Paving	3,839	0
LY T5/7 Log Barge/Crane Equipment	136,357	2,935
LY T3 Enhance Ship Repair Facility	69,587	6,251
FIA AIP #23 Site Development	881,365	23,750
FIA AIP #24 West GA Taxilane & Apron	1,834,144	(162,114)
FIA AIP #25 Airport Master Plan	292,249	38,540
FIA AIP #26 Taxiway Reconstruction	356,965	18,009
FIA AIP #27 Taxiway Reconstruction II	1,496,383	(45,074)
PABH Breakwater Repairs	3,793	
PABH Supplemental Flotation	65,608	34,392
ADMIN Stormwater Pollution Prevention Plan	7,478	22
Total	\$5,387,789	(\$43,347)

5. Stewardship, Compliance, and Accountability

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

6. Leasing activities

The Port leases a significant portion of industrial and marine terminal land to tenants under operating leases. Minimum future rental income on operating leases is as follows:

Year ending December 31,	Minimum Future Rental Income
2010	\$734,573
2011	562,484
2012	516,405
2013	426,858
2014	368,811
Thereafter	<u>3,598,016</u>
Total	<u>\$6,207,147</u>

Property included in capital assets and held for rental and leasing purposes is as follows:

	2009
Land and facilities improvements	\$5,847,642
Buildings	6,280,214
Equipment	<u>293,306</u>
	\$12,421,162
Less: Accumulated depreciation	<u>6,287,755</u>
	<u>\$6,133,407</u>

7. Contracts, note receivable and grants receivable

Contracts, note receivable and grants receivable consist of the following:

	2009
Grants receivable	\$110,418
Real estate contracts	<u>39,797</u>
	\$150,215
Less: Current portion	<u>4,617</u>
Non-current portion	<u>\$145,598</u>

8. Long-term debt

Principal of outstanding long-term debt consists of the following:

		Year					Due
		Last					Within
	Interest	Series	January			December	One
	Rate	Matures	2009	Additions	Reductions	2009	Year
General obligation bonds:							
March 26, 2002	4.15 - 5.25	2016	3,375,000		360,000	3,015,000	375,000
April 20, 2006	4.00 - 4.75	2025	<u>4,805,000</u>		<u>195,000</u>	<u>4,610,000</u>	<u>205,000</u>
Total general obligation bonds			<u>\$8,180,000</u>	<u>\$0</u>	<u>\$555,000</u>	<u>\$7,625,000</u>	<u>\$580,000</u>
Other long-term debt:							
Contract payable	4.81	2019	\$343,750		\$31,250	\$312,500	\$31,250
Contract payable	2.25	2010	<u>30,000</u>		<u>15,000</u>	<u>15,000</u>	<u>15,000</u>
Total other long-term debt			<u>\$373,750</u>	<u>\$0</u>	<u>\$46,250</u>	<u>\$327,500</u>	<u>\$46,250</u>
Discount/Premium on issuance			<u>88,052</u>	<u>\$0</u>	<u>5,459</u>	<u>82,593</u>	
Total Debt			8,641,802	0	606,709	8,035,093	626,250
Less: Current portion			<u>601,250</u>		<u>(25,000)</u>	<u>626,250</u>	
Long-term Debt			<u>\$8,040,552</u>	<u>\$0</u>	<u>\$631,709</u>	<u>\$7,408,843</u>	

The aggregate debt service on outstanding general obligation debt as of December 31, 2009 is as follows:

Year	Principal	Interest	Total
2010	\$626,250	\$356,871	\$983,121
2011	636,250	326,631	962,881
2012	666,250	298,928	965,178
2013	696,250	270,384	966,634
2014	721,250	239,329	960,579
2015-2019	2,511,250	724,667	3,235,917
2020-2024	1,710,000	304,600	2,014,600
2025-2029	<u>385,000</u>	<u>16,363</u>	<u>401,363</u>
Total	\$7,952,500	\$2,537,772	\$10,490,272

Advance bond refundings in 1992, 1990 and 1988 resulted in the accounting recognition of deferred charges totaling \$1,528,000 which are being deferred and amortized over the lives of the defeased bonds. Amortization for these charges totaled \$3,410 in 2009, and is included with interest expense in the accompanying financial statements.

On March 26, 2002 the Port issued \$1,260,000 of Limited Tax General Obligation bonds (2002, Series A) and \$3,375,000 of Limited Tax General Obligation and Refunding bonds (2002, Series B). A significant portion of the 2002, Series B bonds will partially refund 1992 Limited Tax General Obligation bonds; bonds with maturity dates of December 2003 through December 2006 were refunded. A total of \$2,573,377.44 was deposited with an Escrow Agent to refund \$ 2,460,000 of 1992 Limited Tax General Obligation bonds.

On April 1, 2006, the Port issued \$4,995,000 of Limited Tax General Obligation bonds. These bonds partially funded a major renovation of the Port Angeles Boat Haven. This renovation was completed in 2008.

The Port has not issued short term debt during the last three years.

9. Passenger facility charges

In 1993, the Commission of the Port of Port Angeles authorized Port management to proceed with application to the Federal Aviation Administration (FAA) for the right to impose passenger facility charges (PFCs) on enplaned passengers at the Port's airport facility. The PFCs generate revenue to be used by the Port for projects eligible under the federal legislation permitting the imposition of PFCs. PFCs collected by the Port are recognized as revenue in the period which they are collected. The Port reinstated PFCs of \$3.00 per passenger, effective September 1, 1996; extension of PFC #3 collections was approved in 1997 for \$105,000; PFC #4 collections was approved in 1998 for \$122,650; PFC #5 collections was approved in 2000 for \$211,683; PFC #6 collections was approved in 2003 for \$313,484; and PFC #7 collections was approved in 2008 for \$191,838.

10. Pension Plans

Substantially all the 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 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive

reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to but not yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
Total	262,057

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program

in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

- * The employer rates include the employer administrative expense fee currently set at 0.16%
- ** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3
- *** Plan 3 defined benefit portion only
- **** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2
- ***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$ -0-	\$ 123,637	\$ 9,496
2008	\$ 4,276	\$ 133,590	\$ 5,033
2007	\$ 3,886	\$ 112,989	\$ 2,177

11. Risk Management

The Port maintains commercial insurance coverage against most normal hazards except for unemployment insurance where it has elected to become self-insured.

Basic general liability coverage is in effect with a limit of \$1,000,000 with a \$10,000 deductible. Excess liability coverage is in effect with a limit of \$50,000,000 over the first \$1,000,000 of loss.

Airport liability coverage is in effect with a limit of \$30,000,000 with no deductible.

Commercial property coverage with a loss limit of \$70,000,000 and a deductible of \$25,000 is in effect.

Public Officials' Liability coverage with a loss limit of \$5,000,000 and a deductible of \$25,000 is in effect. Separate Public Officials' Bonds, with limits up to \$1,000,000, have been placed for senior management who direct fiduciary activities.

In addition, the Port maintains standard business automobile, and boiler and machinery coverage.

The Port provides medical, vision, dental, life, and long-term disability insurance coverage for Port employees through standard plans offered through the State of Washington. The Port does not administer any of these plans.

The Port has not entered into any insurance settlements in the last three years which exceeded insurance coverage.

12. Contingencies

The Port is a defendant in various legal actions and claims, including an environmental impact action described in the following paragraph, which arise during the normal course of business, some of which may be covered by insurance. Final disposition of these actions and claims are not determinable and, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or results of operations of the Port.

The Port is currently evaluating the potential environmental impact of past petroleum product transfer facilities at the marine terminal log yard. Previous insurance carriers and potentially responsible parties have been notified of the investigation underway; all costs to date have been reimbursed. The potential cost of remediation, if any, is not determinable at this time and therefore these costs have not been accrued in these financial statements.

As discussed in Note 8, the Port is contingently liable for repayment of refunded debt.

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

13. Other Disclosures

In 2008, the Port and the City of Port Angeles jointly established the Port Angeles Harbor-Works Public Development Authority. The purpose of Harbor-Works is to redevelop the former Rayonier Mill site as well as to assist in the clean-up efforts at the prime waterfront site. The financial activities of Harbor-Works are reported in the City of Port Angeles financial statements as a discretely presented component unit.

There were no subsequent events which had a material effect on the operations or financial statements of the Port.

FAIRCHILD INTERNATIONAL AIRPORT

SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED

	Mar-09	Jun-09	Sep-09	Dec-09	Total
Unexpended PFCs and Interest, Beginning of Period	\$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	7,237.09	12,121.04	11,591.32	8,133.74	39,083.19
Interest Earned	0.00	0.00	0.00	0.00	0.00
Total	7,237.09	12,121.04	11,591.32	8,133.74	\$39,083.19
Expenses/Expenditures	7,237.09	12,121.04	11,591.32	8,133.74	\$39,083.19
Unexpended PFC and Interest	0.00	0.00	0.00	0.00	0.00

FAIRCHILD INTERNATIONAL AIRPORT
NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGES
COLLECTED, HELD AND USED

FOR THE YEAR ENDED DECEMBER 31, 2009

1. BASIS OF ACCOUNTING

This schedule is prepared generally on the same basis of accounting as the Airport's financial statements. However, while the Airport uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented represent only those receipts actually received for the quarter reported. PFC revenues not received prior to the end of each quarter are not accrued and are reported as revenues of the subsequent reporting period.

2. PROGRAM COSTS

The amounts shown as current year revenues and expenses represent only the Passenger Facilities Charges portion of the project costs. Entire project costs may be more than shown.

**Port of Port Angeles
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2009**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Other Identification Number</u>	<u>Federal Grant Expenditures</u>
Airport Improvement Program	20.106	3-53-0047-022	\$9,266
Airport Improvement Program	20.106	3-53-0047-023	0
Airport Improvement Program	20.106	3-53-0047-024	19,928
Airport Improvement Program	20.106	3-53-0047-025	159,610
Airport Improvement Program	20.106	3-53-0047-026	205
Airport Improvement Program	20.106	3-53-0047-027	1,405,000
Total			<u>\$1,594,009</u>

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

Port of Port Angeles
Notes to the Schedule of Expenditures of Federal Awards

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the Port's financial statements. The Port uses the full accrual basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenses represent only the federal and state grant portion of the program costs. Entire program costs, including the Port's portion, may be more than shown.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
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Main number
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