Washington State Auditor's Office

Financial Statements Audit Report

Port of Port Angeles

Clallam County

Audit Period

January 1, 2011 through December 31, 2011

Report No. 1009398

Issue Date

March 25, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

March 25, 2013

Board of Commissioners
Port of Port Angeles
Port Angeles, Washington

Report on Financial Statements and Passenger Facility Charges

Please find attached our report on the Port of Port Angeles' financial statements 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,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

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Clallam County
January 1, 2011 through December 31, 2011

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, 2011 through December 31, 2011

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, 2011, and have issued our report thereon dated January 22, 2013. During the year ended December 31, 2011, the Port implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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.

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 and the Board of Commissioners. 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

January 22, 2013

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, 2011 through December 31, 2011

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, 2011. 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, 2011.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

January 22, 2013

Independent Auditor's Report on Financial Statements

Port of Port Angeles
Clallam County
January 1, 2011 through December 31, 2011

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, 2011, as listed on page 7. 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, 2011, 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.

As described in Note 1, during the year ended December 31, 2011, the Port implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Port's basic financial statements. 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. This schedule is 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

January 22, 2013

Financial Section

Port of Port Angeles
Clallam County
January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

Port of Port Angeles
Management's Discussion and Analysis
For the Year Ended December 31, 2011

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, 2011. It provides an introduction to the Port's 2011 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.

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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

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

The Statement of Net Position presents information on all of the Port of Port Angeles' assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position 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 Position show how the Port's Net Position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

FINANCIAL REPORT

Financial Highlights

- The assets of the Port exceeded its liabilities (Net Position) at the close of calendar year 2011 by $55.6 million. Of this amount, $38.3 million is invested in capital assets, net of related debt. The remaining balance of $17.3 million in unrestricted net assets may be used in the Port's continuing operations.

- In 2011 the Port's Net Position increased by approximately $1.4 million; this improvement in the Port's financial position (presented below) was driven primarily by an increase in Marine Terminal and Log Handling net operations, and a decrease in non-operating expenses.

- The Port's long-term debt decreased by $605,000 in 2011; this decrease was a result of debt payments in 2011. Note: Port issued refunding LTGO (Limited Tax General Obligation) bonds in June 2012 to refinance a 2002 bond; result was $170,000 in present value savings.

Financial Position Summary

The Statement of Net Position presents the financial position of the Port at the close of calendar year 2011. The Statement includes all Port assets and liabilities. Net Position serves as an indicator of the Port's financial position. A condensed schedule of assets, liabilities, and net position follows:

Port of Port Angeles' Net Position	**2011**	**2010**
Current Assets	$8,724,695	$10,498,586
Noncurrent Assets	59,496,179	56,002,924
Total Assets	**$68,220,874**	**$66,501,510**
	-	-
Deferred Outflows of Resources	**$0**	**$0**
Current Liabilities	$2,523,425	$1,611,485
Noncurrent Liabilities	10,000,000	10,656,928
Total Liabilities	**$12,523,425**	**$12,268,413**
	-	-
Deferred Inflows of Resources	**$0**	**$0**
Net Position Invested in Capital Assets, Net of Related Debt	$38,333,435	$34,039,009
Net Position Unrestricted	17,364,014	20,194,088
Total Net Position	**$55,697,449**	**$54,233,097**

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

Port of Port Angeles' Statement of Revenue, Expenses and Changes in Net Position	**2011**	**2010**
Operating Revenues		
Marine Terminal	$2,415,302	$1,556,078
Log Handling	1,215,454	871,452
Airports	293,188	306,287
Marinas, Boatyard, Launch Ramp	2,690,046	2,629,967
Property Rentals	1,151,465	1,020,122
Total Operating Revenues	**$7,765,455**	**$6,383,906**
NonOperating Revenues	**$2,252,032**	**$2,089,907**
Total Revenues	**$10,017,487**	**$8,473,813**
Operating Expenses		
Marine Terminal	$935,622	$911,141
Log Handling	1,489,636	1,323,543
Airports	993,288	551,506
Marinas, Boatyard, Launch Ramp	2,131,091	1,998,930
Property Rentals	741,617	685,967
Depreciation	2,109,591	1,895,439
Total Operating Expenses	**$8,400,845**	**$7,366,526**
NonOperating Expense	**$421,323**	**$947,137**
Total Expenses	**$8,822,168**	**$8,313,663**
Excess (Deficiency)	**$1,195,319**	**$160,148**
Capital Contributions	$324,081	$525,194
Gain (Loss) on Sale of Capital Assets	($55,048)	$176
Increase in Net Position	**$1,464,352**	**$685,518**
Net Position - January 1	$54,231,760	$53,546,242
Net Position - December 31	**$55,696,112**	**$54,231,760**

The most significant financial events in 2011 for the Port were receipts of grants in the amount of $324,081 and receipt of general levy taxes in the amount of $1,344,295. Both of these events were reported in the Statement of Revenues, Expenses, and Changes in Net Position.

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 2010 in the amount of approximately $834,743 (without depreciation). The primary reason for this improvement was increased volume in tanker traffic and log export vessels. Approximately 78.9 million board feet of logs were exported out of the Port's terminals in 2011 as opposed to 25.7 million board feet in 2010.

The Log Handling division's receipts increased by 40% over 2010 receipts; the volume increase was related to handling of logs which were later exported over the Port's marine terminals.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Net capital assets increased by $3.7 million. This was primarily due to the construction of the Composite Manufacturing Campus as part of the airport industrial area. Other activity included work on the Tumwater Creek Bridge and purchase of a building that will be used as rental property, Additional information on the Port's capital assets activity may be found in the notes presented in the Port's financial statements.

Debt Administration

The Port had general obligation bond debt outstanding of $10.6 million at December 31, 2011. During 2011 the Port made debt principal payments of $605,000. The proceeds from the December 2010 bond issue were used to expand facilities at the Port's Composite Manufacturing Campus. The Port estimates it has legal capacity to issue an additional $9 million of non-voted general obligation debt. Additional information on the Port's Long-Term Liabilities may be found in the notes presented in the Port's financial statements.

PORT OF PORT ANGELES
Statement of Net Position
As Of December 31, 2011

	2011
CURRENT ASSETS	
Cash and cash equivalents	6,485,385
Restricted Assets:	
Cash and cash equivalents	507,694
Accounts receivable, less allowance for doubtful accounts of $47,967	1,193,533
Contracts and current portion of note receivable	4,617
Prepayments and other current assets	282,943
Grants receivable	227,982
Taxes receivable	22,541
Total Current Assets	**$8,724,695**
NONCURRENT ASSETS	
Investments	$10,326,947
Capital Assets, Net	48,968,435
Other Noncurrent Assets:	
Contracts and note receivable, net of current portion	25,947
Other assets	174,850
Total Noncurrent Assets	**$59,496,179**
TOTAL ASSETS	**$68,220,874**
DEFERRED OUTFLOWS OF RESOURCES	**$0**
CURRENT LIABILITIES	
Accounts payable	$1,278,630
Accrued expenses	95,187
Accrued vacation and sick pay	471,596
Accrued interest	43,013
Current portion of long-term debt	635,000
Total Current Liabilities	**$2,523,425**
NONCURRENT LIABILITIES	
Long-Term Liabilities, Net of Current Portion	$10,000,000
TOTAL LIABILITIES	**$12,523,425**
DEFERRED INFLOWS OF RESOURCES	**$0**
NET POSITION	
Net Investment in Capital Assets	$38,333,435
Unrestricted	17,364,014
TOTAL NET POSITION	**$55,697,449**

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The Accompanying Notes Are An Integral Part Of This Statement

PORT OF PORT ANGELES

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended December 31, 2011

	2011
OPERATING REVENUES	
Marine Terminals	$2,415,302
Log Handling	1,215,454
Airports	293,188
Marinas, Boatyard and Launch Ramps	2,690,046
Property Rentals	1,151,465
Total Operating Revenues	**$7,765,455**
OPERATING EXPENSES	
General Operations	$3,755,252
Maintenance	618,454
General and Administrative	1,917,548
Depreciation (including $317,223 depreciation on donated assets)	2,109,591
Total Operating Expenses	**$8,400,845**
OPERATING INCOME (LOSS)	**($635,390)**
NONOPERATING REVENUES (EXPENSES)	
Taxes levied for general levy	$1,344,295
Passenger facility charges	24,223
Income from sale of timber resources on State and County property	146,999
Interest income	439,183
Interest expense	(540,104)
Unrealized Gain (Loss) from Investments	297,332
Miscellaneous revenue (expense)	118,781
Total Non Operating Revenues(Expenses)	**$1,830,709**
INCOME (LOSS) before other revenues,expenses, gains, and losses	**$1,195,320**
Capital Contributions	$324,081
Gain (loss) on retirement of capital assets	(55,048)
INCREASE IN NET POSITION	**$1,464,353**
Net Position - January 1	$54,231,759
Net Position - December 31	**$55,696,112**

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, 2011

	2011
Cash flows from operating activities	
Cash received from customers	$7,175,216
Less: Cash paid to employees and suppliers	(5,135,664)
Cash provided by operating activities	$2,039,552
Cash flows from noncapital financing activities	
Timber and Leasehold Taxes	148,798
Cash flows from capital and related financing activities	
Purchase of property	($312,617)
Principal payments on debt instruments	(605,000)
Interest paid on debt instruments	(521,140)
Acquisition and construction of capital assets	(5,265,421)
Cash received from state and federal grants	321,767
Cash received from property taxes for payment on debt instruments	1,358,260
Cash provided by capital and related financing activities	($5,024,151)
Cash flows from investing activities	
Sales of investments	$6,493,250
Purchases of investments	(5,952,494)
Interest received on investments	204,928
Payment received on contracts receivable	7,783
Cash used by investing activities	$753,466
Net increase (decrease) in cash and cash equivalents	**($2,082,334)**
Cash and cash equivalents at beginning of year	9,075,413
Cash and cash equivalents at end of year	**$6,993,079**

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 2011

	2011
(a) Operating Income	($635,390)
(b) Net Cash Provided by Operating Activities	
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	$2,109,591
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(307,725)
(Increase) Decrease in Prepayments	(14,955)
(Increase) Decrease in Other Assets	20,729
Increase (Decrease) in Accounts Payable	978,017
Increase (Decrease) in Other Accrued Expenses	(110,716)
Net Cash Operating Activities	**$2,039,551**
Non-Cash Investing and Financing Activities	
Increase (Decrease) in Fair Value of Investments	$297,332

The Accompanying Notes Are An Integral Part Of This Statement

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 (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

As allowed by the Government Accounting Standards Board, the Port has chosen early implementation of GASB 63, *Financial Reporting of Deferred Outflows/Inflows of Resources and Net Position,* for the year ended December 31, 2011.

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 its home office 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 collects 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 (GAAP), management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the district's reporting entity because of the significance of its operational or financial relationship with the district.

The Industrial Development Corporation (IDC), a public corporation, is authorized 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 used.

The IDC is governed by the Port's three member Port Commission. The IDC's account balances and transactions are included as a blended unit within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 338 West First Street in Port Angeles, WA.

The presentation of 2010 Net Position has been restated to include the IDC has a component unit.

Basis of accounting and reporting

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 for 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. All assets and liabilities associated with Port activity are included on the Port's statement of net position. The fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. 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, such as cost of services, administrative expenses and depreciation on capital assets, are reported as operating expenses.

Ad valorem tax levy revenues, investment earnings 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. Capital contributions are shown as non-operating revenue.

Ad valorem taxes (property 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

It is the Port’s policy to invest all temporary cash surpluses. For financial statement purposes, the Port considers all short-term investments, which primarily consist of financial institution deposits and investments in government pools to be cash equivalents on the statement of net position.

Cash Equivalents as of December 31, 2011 were as follows:

General Operating	$ 6,485,385
Other Restricted Assets	507,694
Total, December 31, 2011	$ 6,993,079

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.

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 $ 47,967 at December 31, 2011 and $ 23,708 at December 31, 2010.

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.

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, may be accumulated up to two times the annual vacation amount (annual vacation accrual is 10 to 30 days depending on years of service), is paid at the rate of 100%. There is no limit on sick leave accrual. Sick leave is paid out at the rate of 75%. At December 31, 2011, the recorded liabilities for compensated absences totaled $ 471,596.

Restricted Assets

In accordance with bond resolutions and certain related agreements, separate restricted accounts are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special restricted requirements. Restricted Assets contain resources used for payments on 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 - Debt Service	$ 200,000
Cash and Investments – 2010A Bond Fund	307,694
Total	$ 507,694

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 (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC agent in the name of the collateral pool. In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance.

The Washington State Local Government Investment Pool (LGIP) is operated by the Washington State Treasurer which operates it in a 2a-7-like manner even though it is not subject to SEC regulation. The LGIP is not rated and is subject to annual audits by the Washington State Auditor's Office.

Investments

The Port Commission has authorized the Port Treasurer to invest in savings or time deposits in designated public depositories, obligations of the United States or its agencies, obligations of Local and State governments that are rated "A" or higher, and other limited investment authority. With the exceptions of certain reserve fund investments, the investment policy generally limits the maximum maturity of any security purchased to five years. Investments are purchased through broker relationships with all securities purchased held in the Port's name at a third party custodian.

As of December 31, 2011 the Port had the following investments:

Deposits & Investments	Market Value
Cash (non-Investment): Financial Institution Deposits	$ 665,007
Cash Equivalent Investments:	
Washington State Local Government Investment Pool (LGIP)	3,881,235
Finanical Institution Deposits	1,876,873
Accrued Interest	62,270
Cash and Cash Equivalents	**$ 6,485,385**
Restricted: Cash and Cash Equivalent (LGIP)	**$ 507,694**
Investments	
U.S. Agency Securities	$ 6,038,130
Port Districts Investment- located in Washington State	2,050,997
School District Investment- located in Washington State	2,237,820
Investments	**$ 10,326,947**
Total Cash, Cash Equivalents and Investments	**$ 17,320,026**

Of the above investments, cash and cash equivalents are protected by the FDIC or the PDPC. The US Agencies are guaranteed by the US government. The Port Districts investments are rated A and AA by Moody's, and the School District investment is rated AA by Moody's.

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. To minimize this risk, the Port's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping custodian. Of the Port's total investment position of $10,326,947 in 2011, $ -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 2011 was $.17 per $1,000 on an assessed valuation of $ 8,031,011,937 (2010 assessment for 2011 collections) for a total regular levy of $ 1,344,295.

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.

During 2011, the Port capitalized $ 0 of net interest. Interest costs of $ 0 were offset by interest income of $ 0.

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, 2011 was as follows:

	January 1, 2011	Increases	Decreases	Dec. 31, 2011
Capital Assets, not being depreciated:				
Land	$12,328,365	$312,617	$0	$12,640,982
Work in Progress	4,894,226	6,170,331	(5,617,359)	$5,447,198
Intangible Assets	0	0	0	0
Total Capital Assets, not being depreciated	**$17,222,591**	**$6,482,948**	**($5,617,359)**	**$18,088,180**
Capital Assets, being depreciated:				
Buildings	$10,620,925	$154,556	($18,006)	$10,757,475
Improvements	48,332,886	4,393,505	(286,369)	52,440,022
Machinery/Equipment	4,254,772	447,847	(109,663)	4,592,956
Intangible Assets	0	0	0	0
Total Capital Assets, being depreciated	**$63,208,583**	**$4,995,908**	**($414,038)**	**$67,790,453**
Less: Accumulated Depreciation for:				
Buildings	($6,910,829)	($331,095)	$16,205	($7,225,719)
Improvements	(25,155,499)	(1,626,608)	265,122	($26,516,985)
Machinery/Equipment	(3,063,909)	(151,888)	48,302	($3,167,495)
Intangible Assets	0	0	0	0
Total Accumulated Depreciation	**($35,130,237)**	**($2,109,591)**	**$329,629**	**($36,910,199)**
				-
Total Capital Assets, being depreciated, net	**$28,078,346**			**$30,880,254**
Total Net Capital Assets	**$45,300,937**	**$9,369,265**	**($5,701,768)**	**$48,968,435**

The Port has 23 active construction projects as of December 31, 2011. At year-end the Port's commitments with contractors are as follows:

	Project	Spent to Date	Remaining Commitment
1	MT T-1 Redevelopment I	$9,605	$39,846
2	MT T-1 Hazardous Materials	110,963	
3	MT Replace Tumwater Creek Bridge	579,115	310,072
4	MT T-1 Bulkhead Repairs	27,232	11,789
5	MT Breasting Dolphins Temporary Repairs	16,368	755
6	LY Storm Damage	25,000	
7	LY Drainage & Paving	4,089	0
8	LY T-3 Enhance Ship Repair Facility	72,598	3,240
9	FIA Lincoln Park Obstruction Removal	8,349	61,651
10	FIA Small Community Air Services	63,570	177,659
11	FIA AIP #28 Fixed-Base Operator Dev. I	241,931	122,020
12	FIA AIP #29 Lincoln Park Master Plan	58,640	87,094
13	FIA AIP #30 Taxiway Lighting Improvements	51,264	328,544
14	RP Maritime Security Improvements	750	0
15	RP Pen-Ply Repairs II	52,223	23,770
16	RP Pen-Ply Closure	6,945	31,650
17	RP CMC Expansion Project	-126,030	11,200
18	RP CMC Site Development	1,246,619	0
19	RP CMC Binding Site Plan	27,241	0
20	RP CMC Building Construction	2,774,018	372,769
21	RP CMC Sidewalks	42,596	2,130
22	ADMIN Dioxin Claims	31,618	
23	ADMIN Harbor Assessment	1,664	
	Total	**$5,326,370**	**$1,584,189**

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
2012	$1,533,762
2013	1,027,291
2014	905,422
2015	855,511
2016	836,985
Thereafter	3,854,858
Total	**$9,013,829**

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

	2011
Land and facilities improvements	$5,847,642
Buildings	6,290,892
Equipment	293,306
	$12,431,840
Less: Accumulated depreciation	6,408,613
	$6,023,227

7. Contracts, note receivable and grants receivable

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

	2011
Grants receivable	$227,982
Real estate contracts	30,564
Less: Current portion	4,617
Noncurrent portion - Real Estate Contracts	$25,947

8. Long-term Liabilities

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

	Interest Rate	Year Last Series Matures	January 2011	Additions	Reductions	December 2011	Due Within One Year
General obligation bonds:							
March 26, 2002	4.15 - 5.25	2016	$2,640,000		390,000	2,250,000	410,000
April 20, 2006	4.00 - 4.75	2025	4,405,000		215,000	4,190,000	225,000
December 2010 - A	7.50	2030	760,000	0	0	760,000	0
December 2010 - B	4.00 - 5.00	2030	3,435,000	0	0	3,435,000	0
Total general obligation bonds			$11,240,000	0	605,000	10,635,000	635,000
Other long-term debt:							
Total other long-term debt			$0	0	0	0	0
Discount/Premium on issuance			21,928	0	2,699	19,229	
Total Debt			$11,261,928	0	607,699	10,654,229	635,000
Less: Current portion			605,000		(30,000)	635,000	
Long-term Debt			**$10,656,928**	**0**	**637,699**	**10,019,229**	

The aggregate debt service on outstanding general obligation debt as of December 31, 2011 is as follows:

Year	Principal	Interest	Total
2012	$635,000	$507,828	$1,142,828
2013	665,000	480,788	1,145,788
2014	690,000	451,235	1,141,235
2015	725,000	418,683	1,143,683
2016	760,000	384,010	1,144,010
2017-2021	2,080,000	1,566,015	3,646,015
2022-2026	2,560,000	1,084,900	3,644,900
2027-2031	2,520,000	396,375	2,916,375
Total	**$10,635,000**	**$5,289,834**	**$15,924,834**

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.

On December 22, 2010 the Port issued Limited Tax General Obligation bonds with a principal amount of $4,195,000. Proceeds from these bonds will be used to expand facilities at the Port's Composite Manufacturing Campus.

These bonds are subject to federal tax arbitrage regulations. The Port is required to comply with certain requirements of the Internal Revenue Code of 1986, after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The Port's outstanding bond issues qualified for the small issuer exemption with respect to arbitrage rebate. The Port has covenanted in the Bond Resolution to comply with those applicable requirements.

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 reinstituted 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 Port 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 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

The Legislature established PERS in 1947. 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 retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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.

PERS members 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 members 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 Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

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 monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly 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 retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA 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 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, 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 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS 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 monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS 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 for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and 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.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 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 Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. 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, 2011, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%	7.25%	7.25%**
Employee	6.00%	4.64%	***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
*** 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
2011	$ 0	$ 115,412	$ 18,714
2010	$ 0	$ 98,945	$ 12,519
2009	$ 0	$ 123,637	$ 9,496

11. Risk Management

The Port maintains commercial insurance coverage against most normal hazards except for unemployment insurance where is 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.
In the opinion of management, the port's insurance policies and reserves are adequate to pay all known or pending claims.

The Port is currently evaluating the potential environmental impact of past petroleum product transfer facilities at the marine terminal area. The Port is also evaluating sediment and wood waste issues within the Port Angeles inner harbor. 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 December 2011 a major tenant of the Port terminated business and canceled the remaining long term contract. As of that date, the Port wrote off approximately $200,000 of receivables. This action is reflected in year-end bad debt expense.

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-11	**Jun-11**	**Sep-11**	**Dec-11**	**Total**
Unexpended PFCs and Interest, Beginning of Period	$0.00	0.00	0.00	0.00	0.00
Add:					
PFC Receipts	6,144.42	5,951.31	6,669.72	5,457.69	24,223.14
Interest Earned	0.00	0.00	0.00	0.00	0.00
Total	6,144.42	5,951.31	6,669.72	5,457.69	**$24,223.14**
Expenses/Expenditures	6,144.42	5,951.31	6,669.72	5,457.69	**$24,223.14**
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, 2011

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.

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 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 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 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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Director of State and Local Audit	**Chuck Pfeil, CPA**
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Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
Deputy Director of Quality Assurance	**Barb Hinton**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

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