

Washington State Auditor's Office
Report on Financial Statements Audit

**Grays Harbor Historical Seaport
Authority**

Audit Period
January 1, 2003 through December 31, 2003

Report No. 68102

Issue Date
March 18, 2005



Washington _____
State Auditor

Brian Sonntag



Sunset Building
PO Box 40021
Olympia, Washington 98504-0021

Washington State Auditor
Brian Sonntag

(360) 902-0370
FAX (360) 753-0646
TDD Relay 1-800-833-6388
<http://www.sao.wa.gov>

March 18, 2005

Board of Directors
Grays Harbor Historical Seaport Authority
Aberdeen, Washington

Report on Financial Statements

Please find attached our report on the Grays Harbor Historical Seaport Authority's financial statements.

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

In addition to this work, we look at other areas of our audit clients' operations for compliance with state laws and regulations. The results of that review will be included in our regular audit report, which will be issued separately.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Grays Harbor Historical Seaport Authority January 1, 2003 through December 31, 2003

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

Grays Harbor Historical Seaport Authority January 1, 2003 through December 31, 2003

Board of Directors
Grays Harbor Historical Seaport Authority
Aberdeen, Washington

We have audited the financial statements of the Grays Harbor Historical Seaport Authority, Grays Harbor County, Washington, as of and for the year ended December 31, 2003, and have issued our report thereon dated January 20, 2005. We conducted our audit in accordance with governmental auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatements, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors. 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", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 20, 2005

Independent Auditor's Report on Financial Statements

Grays Harbor Historical Seaport Authority January 1, 2003 through December 31, 2003

Board of Directors
Grays Harbor Historical Seaport Authority
Aberdeen, Washington

We have audited the accompanying financial statements of the Grays Harbor Historical Seaport Authority, Grays Harbor County, Washington, for the year ended December 31, 2003. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our financial audit in accordance with governmental auditing standards generally accepted in the United States of America, 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 misstatements. 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.

As described in Note 1 to the financial statements, the Authority prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Grays Harbor Historical Seaport Authority, for the year ended December 31, 2003, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt is presented for purposes of additional analysis. This supplemental schedule is not a required part of the financial statement but is supplementary information required by the prescribed BARS manual. Such supplemental information has been

subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the 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

January 20, 2005

Financial Statements and Schedules

**Grays Harbor Historical Seaport Authority
January 1, 2003 through December 31, 2003**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2003 and 2002
Notes to Financial Statements – 2003 and 2002

SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2003

GRAYS HARBOR HISTORICAL
SEAPORT AUTHORITY

Comparative Statement of Revenues and Expenses Arising from Transactions
For the Year Ending December 31, 2002 & 2003

OPERATING REVENUES:	12/31/2003	12/31/2002
685 Passages, tours, charters and admissions (LW)	659,918.05	834,196.96
Educational programs	65,932.50	130,707.38
Other:	1,695.00	4,250.00
Memberships	3,910.00	2,420.00
Contributions	9,918.36	16,710.10
Merchandise Sales	12,734.18	16,372.43
Other: Rent	1,505.00	3,785.00
Other: Misc.	7,508.50	23,327.42
Other: Cashiers Over/Short	-34.60	(400.76)
Total Operating Income	<u>763,086.99</u>	<u>1,031,368.53</u>
OPERATING EXPENSES:		
685 Operating G & A	87,377.43	44,698.47
Maintenance G & A	210,482.50	101,999.48
G & A - Ship Operations	426,563.06	575,578.00
Merchandise	12,928.65	5,559.39
Other:	0.00	
Total Operating Expenses	<u>737,351.64</u>	<u>727,835.34</u>
Income(Loss) from Operations	<u>25,735.35</u>	<u>303,533.19</u>
NON-OPERATING REVENUES(EXPENSES):		
Interest on Investments	7,511.54	1,917.04
Federal and state grants and contracts		
Loan Proceeds - Line of Credit		(13,000.00)
Loan Proceeds - Board member loans		-
Debt Service - Repayment of Line of Credit		-
Repay of Board loans		-
Principal and Interest paid on long-term debt	(12,000.00)	(36,000.00)
SAO-Long term		-
Sale of Fixed Assets		1,000.00
Other nonoperating revenues(expenses)		
Total Nonoperating Revenues(Expenses)	<u>(4,488.46)</u>	<u>(46,082.96)</u>
Net increase (decrease) in net cash and investments	21,246.89	257,450.23
Beginning balance of net cash and investments	285,740.21	28,289.98
ENDING BALANCE OF NET CASH AND INVESTMENTS	<u>306,987.10</u>	<u>285,740.21</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

GRAYS HARBOR HISTORICAL SEAPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the years ending December 31, 2002 & 2003

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The Gray's Harbor Historical Seaport Authority was officially chartered by the City of Aberdeen on October 20, 1986, as a public corporation (Public Development Authority) pursuant to RCW 35.21.730-.755. It has been granted tax exempt status under Section 501 (c) (3) of the Internal Revenue Code.

1. Reporting Entity

The Seaport Authority was formed to “to undertake, assist with, or otherwise provide for the development, operation, and maintenance of a first class development devoted to maritime heritage.”

It has constructed the tall ship “Lady Washington”, an 18th century reproduction of the ship sailed to the Pacific Northwest coast by Captain Robert Gray, as partial completion of its formation purpose. It has also constructed two (2) longboats, the Captain Matt Peasley and the Hewitt R. Jackson.

The mission of the Seaport Authority is: “To preserve the rich and colorful maritime heritage of Grays Harbor, the Pacific Northwest, and our nation through innovative experiential education programs and activities.”

2. Basis of Accounting

The accounting records of the GHHSA are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The GHHSA uses the Budget, Accounting and Reporting System for Proprietary-Type Districts (Unclassified).

The accounts of the GHHSA are maintained on the cash basis of activities. For reporting purposes, the activities of all the GHHSA's are combined.

For reporting purposes, the Seaport Authority uses the cash basis of accounting where revenues are recognized only when received and expenses are recognized when paid which is a departure from generally accepted accounting principles.

3. Cash

It is GHHSA's policy to invest all temporary cash surpluses. The amount is included on the statement of revenues and expenses arising from cash transactions as net cash and investments.

4. Deposits

The GHHSA deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation.

GRAYS HARBOR HISTORICAL SEAPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

For the years ending December 31, 2002 & 2003

5. Fixed Assets

Major expenses for fixed assets, including capital leases and major repairs that increase useful lives, are recorded as expenses when purchased. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs and minor renewals are accounted for as expenses when paid. (Obligations under capital leases are disclosed in Note 4 – Long Term Debt and Capital Leases). (Donations are recorded at the contract price or donor costs or appraised value).

6. Investments – See note # 2

7. Compensated Absences

There are no accruals to recognize due to the leave policies of the GHHSA.

Sick leave for full time employees is earned at the rate of ½ day per each calendar month of work and may be accumulated up to 12 days. Compensation for any unused, earned sick leave will not be allowed upon employee's termination.

Vacation leave cannot be accumulated. Employees earn up to three weeks vacation and it is used within the fiscal period earned.

8. Long Term Debt See Note # 4 Long Term Debt and Capital Leases

9. Risk Management

GHHSA is a member of the Washington Governmental Entity Pool (WGEP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act.

NOTE 2 – INVESTMENTS

1. Investments

The GHHSA investment are either insured, registered or held by GHHSA or its agent in seaport authorities name.

Investments by type at December 31, 2003 are as follows:

Type of Investment

Other: CD's	Anchor Bank	\$49,427.62
	Anchor Bank	\$16,324.51
	Bank of Pacific	\$30,595.41
	Key Bank	\$40,812.93
	Timberland Bank	\$14,075.26
	Timberland Bank	\$10,401.86

GRAYS HARBOR HISTORICAL SEAPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the years ending December 31, 2002 & 2003

Other: Savings	Anchor Bank	\$101,827.59
	Key Bank	\$14,238.42
	Total	\$277,703.60

Investments by type at December 31, 2002 are as follows:

<u>Type of Investment</u>		
Other: CD's	Timberland Bank	\$43,397.85
	Anchor Bank	\$15,916.88
	Anchor Bank	\$48,085.14
Other: Savings	Anchor Bank	\$100,603.00
Total		\$208,003.03

NOTE 3 – PROPERTY TAXES

GHHSA has no taxing authority and collects no property tax revenues.

NOTE 4 – LONG TERM DEBT AND CAPITAL LEASES

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of GHHSA and summarizes the seaport authorities debt transactions for 2001. The debt service requirements are as follows:

	Other Debt
2003	\$12,000.00
2004	\$12,000.00
2005	\$12,000.00
2006	\$12,000.00
Thereafter	\$14,026.00

The loan with the City of Aberdeen was renegotiated during 1996. The agreement provided for a revised principal carrying no interest with monthly payments of \$1,000.00. Additionally, the seaport authority receives a debt reduction credit at the end of each year for the number of “Aberdeen resident” students enrolled through the education programs of the GHHSA. The balance due as of 12/31/03 was \$62,026.00

NOTE 5 – CONTINGENCY

Revenues for the Authority are primarily from the operation of the tall ship “Lady Washington”. Revenues and the Seaport Authority’s continued operation are contingent upon the vessel being seaworthy. Provision has not been made for any catastrophic loss of the Lady Washington not covered by insurance.

MCAG# 0615

Grays Harbor Historical Seaport Authority

SCHEDULE 09

SCHEDULE OF LONG TERM DEBT -
For the Year Ending December 31, 2003

ID NO.	Date of Original Issue	Date of Maturity	Beg Outstanding Debt as of 1/1/2003	Issued Current Yr	Amount Redeemed Current Yr	Credit from City of Aberdeen	Ending Debt Bal. As of 12/31/2003
263.67	32,660.00	2116	92,474.00		12,000.00	18,448.00	62,026.00
TOTALS			<u>\$92,474.00</u>	<u>\$ -</u>	<u>\$ 12,000.00</u>	<u>\$ 18,448.00</u>	<u>\$ 62,026.00</u>