

Washington State Auditor's Office
Financial Statements Audit Report

**Grays Harbor Historical Seaport
Authority**
Grays Harbor County

Audit Period
January 1, 2004 through December 31, 2005

Report No. 73639

Issue Date
December 3, 2007



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 3, 2007

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 in order to provide information on the Authority's financial condition.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Grays Harbor County
January 1, 2004 through December 31, 2005**

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

Grays Harbor Historical Seaport Authority Grays Harbor County January 1, 2004 through December 31, 2005

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 years ended December 31, 2005 and 2004, and have issued our report thereon dated September 21, 2007.

We conducted our audits 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 audits, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of the Authority'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 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

September 21, 2007

Independent Auditor's Report on Financial Statements

Grays Harbor Historical Seaport Authority Grays Harbor County January 1, 2004 through December 31, 2005

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 years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinions.


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 years ended December 31, 2005 and 2004, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Authority'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 audits.

Our audits were performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit

of the financial statements and, in our opinion, is fairly stated, 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

September 21, 2007

Financial Section

**Grays Harbor Historical Seaport Authority
Grays Harbor County
January 1, 2004 through December 31, 2005**

FINANCIAL STATEMENTS

Comparative Statement of Revenues and Expenses Arising from Transactions – 2005 and 2004
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SUPPLEMENTAL INFORMATION

Schedule of Long Term Debt – 2005
Schedule of Long Term Debt – 2004

GRAYS HARBOR HISTORICAL SEAPORT AUTHORITY
Comparative Statement of Revenues and Expenses Arising From
Transactions
For the Year Ending December 31, 2004 and 2005

Operating Revenue	12/31/05	12/31/04
865 Passages, Tours, Charters & Admissions L.W.	516,266.33	312,737.11
Education Programs	432,317.55	270,488.26
Sailing Programs	12,665.00	8,800.00
Memberships	15,860.00	2,540.00
Contributions	14,380.52	15,455.04
Merchandise Sales	48,508.65	45,077.39
Other (Rent)	4,200.00	7,290.00
Other (Spar Shop)	393,836.90	86,288.44
Other (Misc.)	4,398.59	697.20
Other (Cashiers Over/Short)	(83.37)	(23.18)
Total Operating Income	1,442,350.17	749,350.26
Operating Expense		
685 Operating G&A	238,391.08	97,462.14
Maintenance G&A	243,427.55	188,405.43
G&A – Ship Operation	911,029.90	572,267.06
Merchandise	38,573.38	30,058.51
Total Operating Expense	1,431,421.91	888,193.14
Income Loss from Operation	10,928.26	(138,842.88)
 Non Operating Revenues (Expenses)		
Interest on Investments	3,970.92	6,383.90
Principal & interest paid on long term loans	(22,461.32)	(11,000.00)
Total non operating revenue (expenses)	(18,490.40)	(4,616.10)
Net increase (decrease in net cash & investments)	7,562.14	(143,458.98)
Beginning balance of Net Cash & Investments	163,528.12	306,987.10
Ending Balance of Net Cash & Investments	155,965.98	163,528.12

The accompanying notes are an integral part of this financial statement.

GRAYS HARBOR HISTORICAL SEAPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the years ending December 31, 2004 and 2005

Note 1 – Summary of Accounting Policies

The Grays 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 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, 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).

For reporting purposes, the activities of the GHHSA are combined.

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 (GAAP).

3. Cash

The GHHSA’s policy is to invest all temporary cash surpluses. The amount is included on the statement of revenues and expenses 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.

5. Capital Assets

Major expenses for capital assets, including capital leases and major repairs, that increase useful lives, are recorded as expenses when purchased. There is no capitalization of capital 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 5 – Long Term Debt). (Donations are recorded at the contract price or donor costs or appraised value.)

6. Investments – See Note #3

7. Compensated Absences

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

8. Long-Term Debt – See Note #5

9. Risk Management

GHHSA is a member of the Washington Governmental Entity Pool (WGEP). Chapter 48.62 RCW authorized 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 – Compliance and Accountability

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

There have been no expenditures exceeding legal appropriations in any of the funds of the Grays Harbor Historical Seaport Authority.

Note 3 – Investments

The GHHSA investments are either insured, registered or held by GHHSA or its agent in the Seaport Authority's name.

Investments by type at December 31, 2005 were as follows:

Type of Investment		
Other CD's	Anchor Bank	\$17,099.07
	Key Bank	\$22,902.54
	Key Bank	\$22,365.65
	Timberland Bank	\$14,756.04
	Timberland Bank	\$10,943.97
	TCCU	\$15,163.35
Other Savings	TCCU	\$ 5,275.63
	Anchor Bank	\$ 411.86
	TCCU	\$ 25.00
	Total	\$108,943.11

Investments by type at December 31, 2004 were as follows:

Type of Investment		
Other CD's	Anchor Bank	\$16,718.64
	Key Bank	\$21,832.91
	Key Bank	\$20,321.02
	Timberland Bank	\$14,392.21
	Timberland Bank	\$10,706.26
Other Savings	TCCU	\$ 5,097.42
	Anchor Bank	\$ 407.74
	Total	\$89,476.20

Note 4 – Property Taxes

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

Note 5 – Long-Term Debt

The accompanying Schedules of Long –Term Debt (09) provide a listing of the outstanding debt of the GHHSa and summarizes the GHHSa debt transactions for 2004 and 2005.

The loan with the City of Aberdeen was renegotiated during 1996. The agreement provided for a revised principal carrying no interest with monthly payment 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 balances due as of December 31, 2004 and 2005 were \$34,990.00 and \$9,419.00.

The loan with Bank of the Pacific was originated October 26, 2005 for the purchase of the sailing vessel *Hawaiian Chieftain* in the amount of \$681,913.44. The balance at the year ending 2005 was \$678,860.77.

The debt service requirements, including interest, are as follows:

Years Ending December 31,	Principal	Interest	Total
2005	\$15,052.67	\$6,718.21	\$21,770.88
2006	\$21,396.21	\$40,229.07	\$61,625.28
2007	\$19,530.83	\$39,094.45	\$58,625.28
2008	\$20,625.81	\$37,999.47	\$58,625.28
2009	\$22,007.60	\$36,617.68	\$58,625.28
2010-2014	\$132,046.69	\$161,079.71	\$293,126.40
2015-2019	\$466,253.63	\$22,715.78	\$488,969.41
Total	\$696,913.44	\$344,454.37	\$1,041,367.81

Note 6 – Pension Plans

The Grays Harbor Historical Seaport offers a plan for all employees who have been employed for three consecutive years a plan that requires a minimum of 3% of gross wages be submitted by employee and a matching 3% from employer. There were three employees registered in the plan at the end of 2005.

The custodian of the plan is Capital Bank & Trust, P. O. Box 25067, Santa Ana, CA 92799-5067

Note 7 – Other Disclosures

Revenues for the Authority are primarily from the operation of two tall ships “*Lady Washington* and *Hawaiian Chieftain*”. Revenues and the Seaport Authority’s continued operation are contingent of the vessels being seaworthy. Provision has not been made for any catastrophic loss of *Lady Washington* and *Hawaiian Chieftain* not covered by insurance.

MCAG#0615

SCHEDULE 09

GRAYS HARBOR HISTORICAL SEAPORT AUTHORITY
SCHEDULE OF LONG TERM DEBT
For the Year Ending December 31, 2005

ID NO	Date of Original Issue	Date of Maturity	Beg.Outstanding Debt as of 1/1/2005	Issued Current Yr.	Amount Redeemed Current Yr.	Credit from City of Aberdeen	Ending Debt Bal. As of 12/31/2005
263.67	1989 10/26/2005	2006 10/21/2015	\$34,990.00	\$681,913.44	\$12,000.00 \$3,052.67	\$13,571.00	\$9,419.00 678,860.77
Totals			\$34,990.00	\$681,913.44	\$15,052.67	\$13,571.00	\$688,279.77

MCAG#0615

SCHEDULE 09

GRAYS HARBOR HISTORICAL SEAPORT AUTHORITY
SCHEDULE OF LONG TERM DEBT
For the Year Ending December 31, 2004

ID NO	Date of Original Issue	Date of Maturity	Beg.Outstanding Debt as of 1/1/2004	Issued Current Yr.	Amount Redeemed Current Yr.	Credit from City of Aberdeen	Ending Debt Bal. As of 12/31/2004
263.67	1989	2006	\$62,026.00		\$11,000.00	\$16,036.00	\$34,990.00
Totals			\$62,026.00		\$11,000.00	\$16,036.00	\$34,990.00



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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. 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 program to coordinate audit efficiency and to ensure high-quality audits.

State Auditor
Chief of Staff
Chief Policy Advisor
Director of Administration
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free hotline for government efficiency

Brian Sonntag, CGFM
Ted Rutt
Jerry Pugnetti
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