Washington State Auditor's Office

Troy Kelley

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# Financial Statements and Federal Single Audit Report

# Pangborn Memorial Airport

**Douglas County**

**For the period January 1, 2013 through December 31, 2013**

**Published September 15, 2014**

**Report No. 1012560**

# Washington State Auditor
# Troy Kelley

September 15, 2014

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

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

Please find attached our report on the Pangborn Memorial Airport's financial statements, compliance with federal laws and regulations and compliance with requirements applicable to its passenger facility charge program.

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

Sincerely,

TROY KELLEY

STATE AUDITOR

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**Pangborn Memorial Airport**
**Douglas County**
**January 1, 2013 through December 31, 2013**

# Federal Summary

**Pangborn Memorial Airport**
**Douglas County**
**January 1, 2013 through December 31, 2013**

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

## *FINANCIAL STATEMENTS*

An unmodified opinion was issued on the basic financial statements.

***Internal Control Over Financial Reporting:***

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

## *FEDERAL AWARDS*

***Internal Control Over Major Programs:***

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

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

***Identification of Major Programs:***

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

| CFDA No. | Program Title |
|---|---|
| 20.106 | Airport Improvement Program |

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

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

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Pangborn Memorial Airport**
**Douglas County**
**January 1, 2013 through December 31, 2013**

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

We have audited, 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, the financial statements of the Pangborn Memorial Airport, Douglas County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 4, 2014.

## *INTERNAL CONTROL OVER FINANCIAL REPORTING*

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## *COMPLIANCE AND OTHER MATTERS*

As part of obtaining reasonable assurance about whether the Port's financial statements are free from 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*.

## *PURPOSE OF THIS REPORT*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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

September 4, 2014

# Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Pangborn Memorial Airport**
**Douglas County**
**January 1, 2013 through December 31, 2013**

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

## *REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM*

We have audited the compliance of the Pangborn Memorial Airport, Douglas County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The Port's major federal programs are identified in the accompanying Federal Summary.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

## *REPORT ON INTERNAL CONTROL OVER COMPLIANCE*

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Purpose of this Report*

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. 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

September 4, 2014

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

**Pangborn Memorial Airport**
**Douglas County**
**January 1, 2013 through December 31, 2013**

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

## *REPORT ON COMPLIANCE FOR PASSENGER FACILITY CHARGES*

We have audited the compliance of the Pangborn Memorial Airport, Douglas 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, 2013.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

### *Auditor's Responsibility*

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.

***Opinion on Compliance***

In our opinion, the Pangborn Memorial Airport 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, 2013.

## ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the Airport 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 Airport'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 the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 Airport'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. A *significant deficiency in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

## ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose. 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 KELLEY
STATE AUDITOR

September 4, 2014

# Independent Auditor's Report on Financial Statements

**Pangborn Memorial Airport**
**Douglas County**
**January 1, 2013 through December 31, 2013**

Board of Commissioners
Pangborn Memorial Airport
East Wenatchee, Washington

## *REPORT ON THE FINANCIAL STATEMENTS*

We have audited the accompanying financial statements of the Pangborn Memorial Airport, Douglas County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 17.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Airport's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pangborn Memorial Airport, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 21 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 our 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.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Passenger Facility Charges is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. These schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## *OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Troy X. Kelley

**TROY KELLEY**
STATE AUDITOR

September 4, 2014

# Financial Section

**Pangborn Memorial Airport**
**Douglas County**
**January 1, 2013 through December 31, 2013**

## *REQUIRED SUPPLEMENTARY INFORMATION*



## *BASIC FINANCIAL STATEMENTS*



## *SUPPLEMENTARY AND OTHER INFORMATION*

Pangborn Memorial Airport's (the Airport) management's discussion and analysis (MD&A) is designed to:

1. Assist the reader in focusing on significant financial issues;
2. Provide an overview of the Airport's financial activity;
3. Identify changes in the Airport's financial position;
4. Provide information on challenges in the next and subsequent years; and
5. Identify individual fund or program issues and concerns.

Since the MD&A is designed to focus on the current year's activities, please read it in conjunction with the Airport's financial statements.

**Financial Statements**

The Airport's financial statements are designed so that all activities for the Airport are reported as one total for the entire Airport. They are designed to display the financial position and activity of the Airport as a whole. The Airport consists exclusively of enterprise funds. Enterprise funds utilize the accrual basis of accounting, and are reported in the same method as that used in private sector accounting. These statements include:

1. Statement of Net Position. This is similar to a balance sheet in that it reports all financial and capital resources of the Airport. The statement is prepared using the balance sheet format. All assets and liabilities are presented in order of liquidity.

   The focus of the statement of net position is designed to present the net assets available to the Airport. Total net position is reported in three broad categories:

   - Net Investment in Capital Assets. This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other related borrowings that are attributable to the acquisition, construction or improvement of those capital assets.

   - Restricted. This component of net position consists of assets in which creditors, grantors, laws or regulations have placed constraints.

   - Unrestricted. This component consists of all remaining assets.

2. Statement of Revenues, Expenses, and Change in Net Position. This statement is similar to an income statement and includes operating revenues, such as rental income and other tenant revenue, operating expenses, such as administrative expenses, utilities, maintenance and depreciation, and non-operating revenue and expenses, which includes grant revenue, passenger facility funds, investment income and interest expense.

3. Statement of Cash Flows. This statement shows net cash provided by, or used for, operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

## An Overview of the Airport's Financial Position and Operations

The Airport's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

**TABLE 1**
**STATEMENTS OF NET POSITION**

| | 2013 | 2012 |
|---|---|---|
| Current and other assets | $ 1,032,778 | $ 436,728 |
| Restricted assets | 721,723 | 522,483 |
| Capital assets | 19,941,551 | 18,977,675 |
| Total Assets | $ 21,696,052 | $ 19,936,886 |
| Current liabilities | $ 795,577 | $ 327,746 |
| Noncurrent liabilities | 236,607 | 612,755 |
| Total Liabilities | 1,032,184 | 940,501 |
| Net Position | | |
| Net investment in capital assets | 19,509,800 | 18,318,272 |
| Restricted | 721,723 | 522,483 |
| Unrestricted | 432,345 | 155,630 |
| Total Net Position | 20,663,868 | 18,996,385 |
| Total Liabilities and Net Position | $ 21,696,052 | $ 19,936,886 |

*Total Assets*

The Airport's total assets at December 31, 2013 were $21,696,052, an increase of $1,759,166 from December 31, 2012. The increase is due primarily to the continuing construction in progress and related land purchases. Passenger Facility Charge funds held in account at the end of the year were $721,723, an increase of $199,240 from December 31, 2012. This is due to a multi-year application, with funds being accumulated as "impose only" under PFC Application 10-10-C-00-EAT for the purchase of a new Aircraft Rescue and Firefighting (ARFF) truck. PFC Application 13-11-C-00-EAT was approved in 2013, and accumulated funds from Application 10-10-C-00-EAT, in the amount of $750,000, are approved to be used for purchase of the ARFF truck. In addition to the use approval for the

*Total Assets* - continued

ARFF truck, the "impose and use" projects approved in PFC Application 13-11-C-00-EAT are improvements to the existing fire station to accommodate the larger truck, security improvements in the passenger terminal, and recovery of the sponsor's portion of the terminal building security wall.

*Total Liabilities*

The Airport's total liabilities at December 31, 2013 were $1,032,184, an increase of $91,683 from December 31, 2012. Noncurrent liabilities decreased by $376,148. Accounts payable increased significantly due to timing of construction in progress billings and operating notes were outstanding from the Port of Chelan County and Port of Douglas County.

*Total Net Position*

The Airport's financial position improved as net position increased by $1,667,483.

**TABLE 2**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**

| | 2013 | 2012 |
|---|---|---|
| Revenue | | |
| Operating revenues | $ 1,334,503 | $ 1,354,987 |
| Nonoperating revenues | 1,081,280 | 767,721 |
| Total Revenues | 2,415,783 | 2,122,708 |
| Expenses | | |
| Operating expenses | 2,814,426 | 2,759,294 |
| Nonoperating expenses | 21,340 | 670,066 |
| Total Expenses | 2,835,766 | 3,429,360 |
| Loss before capital grants | (419,983) | (1,306,652) |
| Capital grants | 2,087,466 | 1,729,197 |
| Change in Net Position | $ 1,667,483 | $ 422,545 |

Major Factors Affecting the Statements of Revenues, Expenses and Changes in Net Position

Operating revenue decreased 1.5% in 2013.

Nonoperating revenues reflect contributions made by the owners of the airport, the Port of Chelan County and the Port of Douglas County, for funds to cover the maintenance and operations deficit, and interest income. Also received are funds through a reimbursable agreement with the Transportation Security Administration for a percentage of the Airport's law enforcement officer expense and the passenger facility ticket fee.

In 2013, capital grants increased by 20.7%. Airport Improvement Program (AIP) Grant 3-53-0084-035-2013 was issued for Phase I of the Runway 12/30 Extension project, Runway 30 Runway Protection Zone (RPZ) property purchase, reimbursement of additional Environmental Assessment costs, and a Taxiway Alpha at Runway 7/25 pavement repair project. Five properties directly related to the extension were purchased in 2013 and preliminary engineering and design work for the extension began.

Operating expenses increased 2.0% in 2013.

## Economic Factors

Significant economic factors affecting the Airport include:

- Commercial air traffic was up 4% for the year, compared to 2012. Rental income from non-aviation space, non-aviation land, airfield space and hangars all increased. The option was given to hangar tenants to purchase reversionary interest in their facilities and enter into a new 30-year lease and 11 tenants signed the new agreement in 2013.

## Request for Information

This financial report is designed to provide a general overview of the Airport's accountability for all those interested. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Pangborn Memorial Airport
Attn: Trent Moyers, Airport Director
One Pangborn Drive
East Wenatchee, WA 98802-9233

Pangborn Memorial Airport
STATEMENT OF NET POSITION
December 31, 2013

## ASSETS

| | |
|---|---|
| CURRENT ASSETS | |
| Cash held by Chelan County Treasurer | |
| General fund | $ 37,824 |
| State pooled investments | 163,551 |
| Bank accounts | 10,360 |
| Cash on hand | 845 |
| Total cash and cash equivalents [Note 2] | 212,580 |
| Accounts receivable | 61,647 |
| Grants receivable | 657,760 |
| Prepaid expenses | 42,408 |
| Fuel inventory | 58,383 |
| Total current assets | 1,032,778 |
| NONCURRENT ASSETS | |
| Restricted assets | |
| Cash in bank - Passenger facility fund [Note 2] | 721,723 |
| Capital assets [Note 3] | |
| Land and right-of-way | 5,870,887 |
| Buildings | 6,139,588 |
| Improvements other than buildings | 17,054,079 |
| Machinery and equipment | 2,063,078 |
| Construction in progress | 528,247 |
| Total costs | 31,655,879 |
| Less accumulated depreciation | 11,714,328 |
| Total capital assets | 19,941,551 |
| TOTAL ASSETS | $ 21,696,052 |

The accompany notes to the financial statement are an integral part of this statement.

## LIABILITIES AND NET POSITION

| | |
|---|---|
| CURRENT LIABILITIES | |
| Accounts payable | $ 245,296 |
| Retainage in escrow | 69,669 |
| Accrued taxes and benefits | 23,022 |
| Accrued vacation payable | 28,077 |
| Accrued interest | 2,087 |
| Operating notes payable [Note 7] | 395,654 |
| Long-term debt payable within one year [Note 8] | 31,772 |
| Total current liabilities | 795,577 |
| NONCURRENT LIABILITIES | |
| Deposits | 73,310 |
| Long-term debt payable after one year [Note 8] | 163,297 |
| Total noncurrent liabilities | 236,607 |
| Total liabilities | 1,032,184 |
| NET POSITION | |
| Net investment in capital assets | 19,509,800 |
| Restricted | 721,723 |
| Unrestricted | 432,345 |
| Total net position | 20,663,868 |
| TOTAL LIABILITIES AND NET POSITION | $ 21,696,052 |

The accompany notes to the financial statement are an integral part of this statement.

Pangborn Memorial Airport
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Year Ended December 31, 2013

| | |
|---|---|
| OPERATING REVENUES | |
| Rent [Note 10] | |
| Space/concessions | $ 247,795 |
| Parking | 181,493 |
| Aviation land | 122,943 |
| Non-aviation land | 69,737 |
| Fuel service operations | 589,391 |
| Landing fees | 74,190 |
| Aviation fuel flowage fee | 15,768 |
| Security badge income | 3,595 |
| Misc. fees, permits and reimbursements | 29,591 |
| Total operating revenues | 1,334,503 |
| OPERATING EXPENSES | |
| Depreciation | 837,732 |
| Salaries | 545,461 |
| Fuel service operations | |
| Fuel | 412,745 |
| Wages | 76,835 |
| Payroll taxes and benefits | 33,804 |
| Small tools and supplies | 16,831 |
| Office and computer | 14,106 |
| Merchant fees | 12,551 |
| Other expenses | 47,792 |
| Employee benefits [Note 5] | 179,604 |
| Insurance [Note 6] | 76,652 |
| Computer supplies and maintenance | 60,143 |
| Utilities | 56,600 |
| Payroll taxes | 54,564 |
| Land lease expense [Note 8] | 32,918 |
| Vehicle expense | 20,288 |
| Other professional services | 9,134 |
| Repairs | |
| Equipment | 43,765 |
| Buildings | 20,187 |
| Vehicles | 18,050 |
| Runways and aprons | 17,373 |
| Legal expense | 37,994 |
| State audit | 30,231 |

The accompany notes to the financial statement are an integral part of this statement.

| | |
|---|---|
| OPERATING EXPENSES - continued | |
| Conventions, meetings and travel | $ 29,406 |
| Accounting services | 26,892 |
| Terminal building expense | 22,906 |
| Crash fire rescue expense | 19,720 |
| Office expenses and telephone | 17,008 |
| Advertising and promotion | 12,145 |
| Janitor supplies | 9,911 |
| Security expense | 5,115 |
| Subscriptions and memberships | 2,065 |
| Miscellaneous shop supplies | 47 |
| Other expenses | 13,851 |
| Total operating expenses | 2,814,426 |
| OPERATING LOSS | (1,479,923) |
| NON-OPERATING REVENUES (EXPENSES) | |
| Operating grants [Note 9] | 804,237 |
| Passenger facility income | 199,240 |
| Gain on disposal of assets | 72,757 |
| Advertising income | 4,759 |
| Interest income | 287 |
| Interest expense | (21,340) |
| Total non-operating revenues (expenses) | 1,059,940 |
| LOSS BEFORE CAPITAL GRANTS | (419,983) |
| Capital grants | 2,087,466 |
| CHANGE IN NET POSITION | 1,667,483 |
| NET POSITION - BEGINNING OF YEAR | 18,996,385 |
| NET POSITION - END OF YEAR | $ 20,663,868 |

The accompany notes to the financial statement are an integral part of this statement.

Pangborn Memorial Airport
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | $ 1,399,790 |
| Payments to suppliers | (1,278,702) |
| Payments to employees | (618,117) |
| Net cash used by operating activities | (497,029) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Operating grants | 709,237 |
| Nonoperating revenues | 203,999 |
| Borrowings on operating note payable | 1,277,123 |
| Payments on operating note payable | (881,469) |
| Net cash provided by noncapital financing activities | 1,308,890 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Capital passenger facility fund | (199,240) |
| Capital grants received | 1,491,214 |
| Proceeds from disposal of assets | 72,757 |
| Acquisition of capital assets | (1,656,807) |
| Payments on long-term debt payable | (379,783) |
| Interest paid | (23,170) |
| Net cash used by capital and related financing activities | (695,029) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received on investments | 287 |
| NET INCREASE IN CASH | 117,119 |
| CASH - BEGINNING OF YEAR | 95,461 |
| CASH - END OF YEAR | $ 212,580 |

The accompany notes to the financial statement are an integral part of this statement.

## RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

| | |
|---|---|
| Operating loss | $ (1,479,923) |
| Noncash expense | |
| Depreciation | 837,732 |
| (Increase) decrease in operating assets | |
| Accounts receivable | 68,108 |
| Prepaid expenses | 4,705 |
| Fuel inventory | 44,508 |
| Increase (decrease) in operating liabilities | |
| Accounts payable | 20,052 |
| Retainage in escrow | 7,329 |
| Accrued taxes and benefits | (898) |
| Accrued vacation payable | 4,179 |
| Deposits | (2,821) |
| Net cash used by operating activities | $ (497,029) |

## NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|---|
| Capital assets included in accounts payable | $ 167,012 |

The accompany notes to the financial statement are an integral part of this statement.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting entity

Pangborn Memorial Airport (the Airport) is a municipal airport situated in Douglas County, Washington, serving the air transportation needs of North Central Washington. The Airport operates as a local government agency under the statutes of the State of Washington.

The Airport obtains operating resources through land and space rentals, concession agreements, user fees and an operating agreement with the Port of Chelan County and Port of Douglas County. The Airport has been managed according to a joint operating agreement between the Port of Chelan and Douglas Counties since 1988. The agreement was restated in 2003 so that the Port of Chelan County serves as manager of the aviation use property and the Port of Douglas County serves as manager and developer of all non-aviation dependent property. In April of 2013, the Port Districts signed a new memorandum of understanding, which took effect January 1, 2013. The Airport is a component unit of the Port of Chelan County.

The financial statements of Pangborn Memorial Airport have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### B. Basis of accounting

The accounting records of the Airport are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Airport uses the Budgeting Accounting and Reporting System (BARS) for GAAP Port Districts in the State of Washington.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Basis of accounting - continued

The Airport distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with Airport principal ongoing operations. The principal operating revenues of the Airport are charges to tenants for land, parking, space and hangar leases. The Airport also recognizes as operating revenue concessions, landing fees and aviation fuel flowage fees. Operating expenses for the Airport include salaries, repairs and maintenance and administration. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, liabilities and net position

1. Cash and cash equivalents

It is the Airport’s policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding $163,551 in short-term residual investments of surplus cash.

For the purpose of the statement of cash flows, the Airport considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Accounts receivable

Accounts receivable are unsecured and stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding, after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to accounts receivable. No accounts are considered potentially uncollectible; therefore there is no allowance balance at year end.

3. Inventory

Fuel inventory is valued at cost using the FIFO (first in, first out) method, which approximates the market value.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### C. Assets, liabilities and net position - continued

#### 4. Restricted assets

The passenger facility fund is the balance of collected passenger facility charges (PFC) at year end. Authorization to collect funds is limited to the beginning and expiration dates of a PFC application. There are two types of projects eligible for PFC funding: (1) a project that meets Federal Aviation Administration (FAA) requirements and (2) sponsor share - PFC funds can be collected to recover the sponsor share of prior federal Airport Improvement Program (AIP) projects. Expenditure of all PFC funds are approved and identified in the Airport Capital Budget.

PFC Application 10-10-C-00-EAT began May 1, 2010, and is projected to expire July 31, 2014. No funds were expended in 2013 as the airport was waiting for final amendment approval. Funds are being accumulated for the purchase of a new Aircraft Rescue and Firefighting (ARFF) truck. PFC Application 13-11-C-00-EAT was approved in April of 2013. In addition to the use approval for the ARFF truck, the impose and use projects are improvements to the existing fire station to accommodate the larger truck, security improvements in the passenger terminal, and recovery of the sponsor's portion of the terminal building security wall.

#### 5. Capital assets

See Note 3.

#### 6. Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Airport records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to a maximum of 30 days, is payable upon resignation, retirement, or death.

Sick leave may accumulate up to 60 days, and is not payable upon resignation or termination of employment, other than retirement. If an employee retires under the Public Employees Retirement System, at the time of termination of employment, the Airport shall contribute an amount equal to 25% of the value of accrued unused sick leave to a Voluntary Employee's Beneficiary Association (VEBA) account. In addition, for those employees that start the calendar year with the maximum hours of sick leave accrued, and during the year use less sick leave than the amount accrued, will also receive a contribution of 25% of the excess accrual to a VEBA account.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### C. Assets, liabilities and net position - continued

7. Deferred compensation

   The Airport employees are eligible to participate in the Washington State employees deferred compensation plan. The annual contribution limits are the lesser of $17,500 or 100% of the employee's gross salary.

8. Long-term debt

   See Note 8.

9. Leases

   As part of its normal operations, the Airport leases land and buildings to tenants. The Airport's objective is that lease terms be for a length of time that will assist in ensuring economic stability and a fair return on the value of the property being leased. Lease terms currently range from month-to-month to fifty years. All leases are accounted for as operating leases.

10. Advertising expenses

    The airport expenses advertising costs as incurred. No direct response advertising is conducted; therefore, no advertising costs have been capitalized. Advertising expense for 2013 was $12,145.

11. Use of estimates

    The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 - DEPOSITS AND INVESTMENTS

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

## NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

A. Major expenses 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.

The Airport 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 Airport has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

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 40 years for buildings and land improvements, and 3 to 20 years for equipment.

B. Capital assets activity for the year ended December 31, 2013 as follows:

| | Beginning Balance 1/1/2013 | Increases | Decreases | Ending Balance 12/31/2013 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land and right-of-way | $ 4,804,646 | $ 1,066,241 | $ - | $ 5,870,887 |
| Construction in progress | 2,076,641 | 1,761,167 | 3,309,561 | 528,247 |
| **Total capital assets, not being depreciated** | $ 6,881,287 | $ 2,827,408 | $ 3,309,561 | $ 6,399,134 |
| Capital assets, being depreciated: | | | | |
| Buildings | $ 6,136,777 | $ 14,770 | $ 11,959 | $ 6,139,588 |
| Improvements other than buildings | 14,825,529 | 2,228,550 | - | 17,054,079 |
| Machinery and equipment | 2,105,044 | 40,441 | 82,407 | 2,063,078 |
| **Total capital assets being depreciated** | 23,067,350 | 2,283,761 | 94,366 | 25,256,745 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,376,365 | 146,358 | 11,959 | 2,510,764 |
| Improvements other than buildings | 6,763,164 | 586,260 | - | 7,349,424 |
| Machinery and equipment | 1,831,433 | 105,114 | 82,407 | 1,854,140 |
| **Total accumulated depreciation** | 10,970,962 | 837,732 | 94,366 | 11,714,328 |
| **Total capital assets being depreciated, net** | $ 12,096,388 | $ 1,446,029 | $ - | $ 13,542,417 |

## NOTE 3 - CAPITAL ASSETS AND DEPRECIATION - continued

C. Construction commitments

Grant projects open as of December 31, 2013, consist of the following:

AIP Grant 34 - Taxiway Alpha Lighting and Airfield Improvements construction and engineering costs were $46,861 in 2013. The Airport's Automated Weather Observation System (ASOS) equipment was relocated to the new electrical vault in the summer of 2013. Subsequent to 2013, retainage was released and the project will be closed in 2014. This project was partially funded with Washington State Department of Transportation Aviation Division funding.

WSDOT GCB 1027 – This grant, to assist with a portion of the sponsor's share of Taxiway Alpha Lighting and Airfield Improvements, was amended by $5,257 in July 2013, for a total grant amount of $40,020.

AIP Grant 35 – This grant was awarded in 2013, in the amount of $9,865,068. Funds were used in 2013 for engineering and design for the Runway 12/30 Extension, property purchases and demolition related to the extension, recovery of funds used for additional Environmental Assessment costs, one property purchased in the Runway Protection Zone for Runway 30, and repair of a portion of Taxiway Alpha.

WSDOT GCB 1681 – A grant in the amount of $895 was awarded in 2013 to assist with the sponsor's share of the Taxiway Alpha repair. Subsequent to 2013, a supplemental agreement was signed that increased the total grant to $4,678.

## NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Airport is not aware of any issues, whether or not they would materially affect these financial statements, involving non-compliance with Washington laws or with BARS.

## NOTE 5 - PENSION PLANS

Substantially all Airport 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 the GASB Statements 27, Accounting for Pensions by State and Local Government Employers and 50, Pension Disclosures, an Amendment of GASB Statements 25 and 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; employees of legislative committees; employees of district and municipal courts and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. 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 exercised 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

NOTE 5 - PENSION PLANS - continued

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age of 55 with 25 years of service, or at age 60 with at least five years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 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. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

NOTE 5 - PENSION PLANS - continued

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55 the benefit 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. Plan 1 members may elect to receive an optional COLA amount (based on the CPI), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members 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. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the CPI), capped at three percent annually.

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, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW (Revised Code of Washington), employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a five percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

NOTE 5 - PENSION PLANS - continued

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member’s self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS’ fiscal year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is one percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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 by 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, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by three 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.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of five percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 2 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 3 percent annually.

NOTE 5 - PENSION PLANS - continued

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 82,242 |
| Terminated plan members entitled to but not yet receiving benefits | 30,515 |
| Active plan members vested | 106,317 |
| Active plan members nonvested | 44,273 |
| Total | 263,347 |

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 six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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.

NOTE 5 - PENSION PLANS - continued

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, 2013, were as follows:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| Employer* | 9.21%** | 9.21%** | 9.21%*** |
| Employee | 6.00%**** | 4.92%**** | ***** |

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Airport and its employees made the required contributions. The Airport’s required contributions for the years ending December 31 were as follows:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| 2013 | $ - | $ 23,983 | $ 26,726 |
| 2012 | 2,071 | 23,267 | 11,557 |
| 2011 | 2,735 | 24,856 | 3,863 |

The Airport's covered payroll for the year ended December 31, 2013 was $617,487.

## NOTE 6 - RISK MANAGEMENT

The Airport is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC (Washington Administrative Code), and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss;
- $250,000 deductible on property loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $245,000 on property loss. Enduris is responsible for the $0 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

NOTE 6 - RISK MANAGEMENT - continued

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

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

In addition to the Enduris coverage, the Airport maintains insurance with the following companies:

| Insurer | Coverage | Deductible |
|---|---|---|
| ACE Property and Casualty Insurance Company | Airport Owners and Operators General Liability | NIL |
| Colony Insurance Company | WA Storage Tank Pollution Liability | $10,000 each claim |

NOTE 7 - OPERATING NOTES PAYABLE

A note payable (line of credit) of $95,000 to the Port of Chelan County for operational cash flow was payable on or before December 31, 2012. During 2013, the Port of Chelan County and Port of Douglas County signed a new MOU (Memorandum of Understanding). As a result of this MOU, the entire note payable was cancelled, and replaced with a direct repayment from the Port of Douglas County to the Port of Chelan County for their 30% share of the obligation.

During 2013, the Port of Chelan County and Port of Douglas County each secured bond funds in order to assist the Airport with a 10% funding match, as required by FAA grants, for the runway extension project. At December 31, 2013, the Airport had $276,958 in advances from the Port of Chelan County and $118,696 in advances from the Port of Douglas County for this purpose. These funds were paid back to the respective Port Districts in February of 2014 when grant funds were received to reimburse project expenses.

The Airport's other short term liabilities consist of accounts payable, accrued taxes and benefits, retainage in escrow, accrued vacation payable, accrued interest and current maturities of long-term debt.

## NOTE 8 - LONG-TERM DEBT AND LEASES

### Long-term debt

A. A note payable to the East Wenatchee Water District for a Utility Local Improvement District (ULID) is payable annually at $9,682, plus interest at 5.25%, and matures in August of 2020.

B. A note payable to the East Wenatchee Water District for a ULID is payable annually at $168, plus interest at 5.25%, and matures in August of 2020.

C. A real estate contract payable to Angeline B. Schall for the purchase of real estate is payable annually at $30,750, including interest at 7.00%, and matures November 5, 2018.

D. A real estate contract payable to James C. Sell for the purchase of real estate was payable monthly at $2,102, including interest at 5.00%. The balance of the contract was paid in full in May of 2013 with runway extension grant funds.

| | Beginning balance 1/1/13 | Additions | Reductions | Ending balance 12/31/13 | Amounts due within one year |
|---|---|---|---|---|---|
| Note A. | $ 77,456 | $ - | $ 9,681 | $ 67,775 | $ 9,682 |
| Note B. | 1,347 | - | 169 | 1,178 | 168 |
| Contract C. | 146,604 | - | 20,488 | 126,116 | 21,922 |
| Contract D. | 349,445 | - | 349,445 | - | - |
| Totals | $ 574,852 | $ - | $ 379,783 | $ 195,069 | $ 31,772 |

NOTE 8 - LONG-TERM DEBT AND LEASES - continued

Long-term debt - continued

Annual debt service payments to maturity are as follows:

| | Principal | Interest |
|---|---|---|
| 2014 | $ 31,772 | $ 12,448 |
| 2015 | 33,307 | 10,397 |
| 2016 | 34,949 | 8,237 |
| 2017 | 36,706 | 5,963 |
| 2018 | 38,635 | 3,401 |
| 2019-2020 | 19,700 | 1,552 |
| Total | $ 195,069 | $ 41,998 |

Operating leases

Beginning April 25, 1997, the Airport leases from the Port of Douglas County 11.11 acres with improvements, referred to as Airside Lot 3, for 50 years, plus five, five year options. This has been subleased to Executive Flight, Inc. The monthly lease payment is $2,942. Land lease expense was $32,918 for 2013.

Future minimum lease payments are as follows:

| | |
|---|---|
| 2014 | $ 35,298 |
| 2015 | 35,298 |
| 2016 | 35,298 |
| 2017 | 35,298 |
| 2018 | 35,298 |
| 2019-2023 | 176,490 |
| 2024-2028 | 176,490 |
| 2029-2033 | 176,490 |
| 2034-2038 | 176,490 |
| 2039-2043 | 176,490 |
| 2044-2047 | 117,660 |
| Total | $ 1,176,600 |

Capital leases

The Airport has no capital leases as of December 31, 2013.

## NOTE 9 - JOINT OPERATING AGREEMENT

The airport is jointly owned by the Port of Chelan County and the Port of Douglas County. A new joint operating agreement became effective January 1, 2004. The agreement states that the Port of Chelan County holds an undivided 61% interest and the Port of Douglas County holds an undivided 39% interest in the airport.

The Port of Douglas County acts as the developer and manager of the Port of Douglas County industrial park and CWICC building as defined in existing lease agreements between the Port of Douglas County and the Airport. The Port of Chelan County manages the aviation related activities and projects, and all other uses of the airport.

During 2013, the Port of Chelan County and Port of Douglas County signed a new MOU to define their relationship regarding the operation and funding of the airport. The Port of Chelan County's financial commitments are anticipated to increase in light of Port of Douglas County's requested cap on annual financial commitments. For 2013, maintenance and operations contributions from the Port of Chelan County and Port of Douglas County totaled $539,728 and $132,158, respectively. In comparison, contributions in 2012 were $373,181 for Port of Chelan County and $159,935 for Port of Douglas County. It is anticipated this new MOU will not have a material effect on the operations of the airport.

## NOTE 10 - OTHER DISCLOSURES

<u>Long-term leases</u>

The Airport has historically received lease income from land, hangar space, airlines and car rental agencies.

The major leases are summarized as follows:

**Land and terminal space**

The Port of Douglas County has a 50 year lease on the industrial property. Lease payments are due as the property is developed.

Alaska Airlines/Horizon Air is the carrier leasing terminal space and providing airline services to the Airport.

Executive Flight, Inc. signed a 50 year land lease in 1997 with an option for five successive five year periods.

NOTE 10 - OTHER DISCLOSURES - continued

Long-term leases - continued

**Car rental leases**

The AVIS/Budget Rent-A-Car, Hertz Rent-A-Car and Enterprise Rent-A-Car annual leases include office space in the terminal and rent for parking spaces. A car wash facility lease with Budget of Port Angeles expired in 2013, and the building reverted to airport property. In addition, the airport entered into a direct lease agreement with AVIS/Budget.

**Other leases**

The Airport has a number of other land leases, terminal leases and commission income. The primary ones consist of: the U. S. Forest Service, C & M Properties, T-hangar space, Executive Flight and TSA office space.

The Airport entered into a contract with Republic Parking on May 1, 2011 to manage the terminal parking lot. The minimum annual guaranteed revenue is $138,000, with a 70% return of gross receipts up to $225,000 and 80% of gross receipts in excess of $225,000.

Minimum future rents, commissions, landing fees, etc. on non-cancelable leases for the five years succeeding December 31, 2013 are as follows:

| | |
|---|---|
| 2014 | $ 310,482 |
| 2015 | 311,665 |
| 2016 | 220,884 |
| 2017 | 176,139 |
| 2018 | 177,432 |

NOTE 11 - SUBSEQUENT EVENTS

The Airport has evaluated subsequent events through May 27, 2014, the date which the financial statements were available to be issued.

## Pangborn Memorial Airport
### Schedule of Passenger Facility Charges Collected, Held and Used - 2013

| | Quarter Ending | | | |
|---|---|---|---|---|
| | March 2013 | June 2013 | September 2013 | December 2013 |
| 10-10-C-00-EAT | | | | |
| 13-11-C-00-EAT | | | | |
| Unexpended passenger facility charges and interest, beginning of period | 522,484 | 568,759 | 617,957 | 667,597 |
| Add: | | | | |
| Passenger Facility Charge Revenue | 46,231 | 49,147 | 49,582 | 54,064 |
| Interest Earned | 44 | 51 | 58 | 64 |
| Total Revenue Available | 568,759 | 617,957 | 667,597 | 721,725 |
| Expenses/Expenditures | 0 | 0 | 0 | 0 |
| Unexpended passenger facility charges and interest, end of period | 568,759 | 617,957 | 667,597 | 721,725 |

See accompanying notes to the Schedule of Passenger Facility Charges Collected, Held and Used

| | March 2013 | June 2013 | September 2013 | December 2013 | Totals |
|---|---|---|---|---|---|
| **Unexpended** passenger facility charges and interest, **beginning of period** | | | | | |
| PFC #10 | 522,484 | 568,759 | 617,957 | 667,597 | 2,376,796 |
| PFC #11 | 0 | 0 | 0 | 0 | 0 |
| | *522,484* | *568,759* | *617,957* | *667,597* | *2,376,796* |
| Add | | | | | |
| PFC #10 | 46,231 | 49,147 | 49,582 | 54,064 | 199,024 |
| PFC #11 | 0 | 0 | 0 | 0 | 0 |
| | *46,231* | *49,147* | *49,582* | *54,064* | *199,024* |
| Interest | 44 | 51 | 58 | 64 | 217 |
| | *46,275* | *49,198* | *49,640* | *54,128* | *199,240* |
| Expenses/Expenditures | | | | | |
| PFC #10 | 0 | 0 | 0 | 0 | 0 |
| PFC #11 | 0 | 0 | 0 | 0 | 0 |
| | *0* | *0* | *0* | *0* | *0* |

See accompanying notes to the Schedule of Passenger Facility Charges Collected, Held and Used

**Pangborn Memorial Airport**
**Notes to the Schedule of Passenger Facility Charges**
**Collected, Held and Used**
**For The Year Ended December 31, 2013**

**Note 1 – Basis of Accounting**

The Schedule is prepared generally on the same basis of accounting as the Pangborn Memorial 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 revenues 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.

**Note 2 – Program Costs**

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

MCAG NO. 1674

Pangborn Memorial Airport

Schedule 16

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### For the Year Ended December 31, 2013

| Federal Agency Name/Pass-Through Agency Name | Federal Program Name | CFDA Number | Other Award Number | Expenditures | | | Footnote Ref |
|---|---|---|---|---|---|---|---|
| | | | | From Pass-Through Awards | From Direct Awards | Total Amount | |
| Federal Aviation Administration (faa), Department Of Transportation/ | Airport Improvement Program | 20.106 | DOT-FA11NM-00863-53-0084-034 | | 45,853 | 45,853 | 1, 2 |
| Federal Aviation Administration (faa), Department Of Transportation/ | Airport Improvement Program | 20.106 | DOT-FA13NM-00333-53-0084-035-2013 | | 1,806,287 | 1,806,287 | 1, 2, 3 |
| | | | **Total CFDA 20.106** | **0** | **1,852,140** | **1,852,140** | |
| | | | **Total Federal Awards Expended:** | **0** | **1,852,140** | **1,852,140** | |

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

# Pangborn Memorial Airport
## Notes to the schedule of Expenditures of Federal Awards
## For The Year Ended December 31, 2013

### Note 1 – Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Pangborn Memorial Airport's financial statements. The Airport uses the accrual method of accounting.

### Note 2 – Program Costs

The amounts shown as current year expenditures represent the Federal portion of the program costs on the Schedule of Expenditures of Federal Awards. Actual program costs including the airports share may be more than shown.

### Note 3 – Prior Year Costs

$3,439.27, $106,069.75, and $16,960.94 of these costs were incurred in 2010, 2011 and 2012, respectively. These costs were reimbursed by the Federal Aviation Administration on October 16, 2013, which was past the Airport's reporting date for 2012. Therefore, the costs are included on the 2013 Schedule of Expenditures of Federal Awards.

## 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

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

| Contact information for the State Auditor's Office | |
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