Washington State Auditor's Office

Financial Statements Audit Report

Port of Chehalis
Lewis County

Audit Period
January 1, 2009 through December 31, 2010

Report No. 1007170

Issue Date
February 6, 2012

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

February 6, 2012

Board of Commissioners
Port of Chehalis
Chehalis, Washington

Report on Financial Statements

Please find attached our report on the Port of Chehalis' financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Lewis County
January 1, 2009 through December 31, 2010

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Lewis County
January 1, 2009 through December 31, 2010

Board of Commissioners
Port of Chehalis
Chehalis, Washington

We have audited the basic financial statements of the Port of Chehalis, Lewis County, Washington, as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated December 6, 2011.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

However, we noted certain matters that we have reported to the management of the Port in a separate letter dated January 5, 2011.

COMPLIANCE AND OTHER MATTERS

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 6, 2011

Independent Auditor's Report on Financial Statements

Port of Chehalis
Lewis County
January 1, 2009 through December 31, 2010

Board of Commissioners
Port of Chehalis
Chehalis, Washington

We have audited the accompanying basic financial statements of the Port of Chehalis, Lewis County, Washington, as of and for the years ended December 31, 2010 and 2009, as listed on page 5. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Chehalis, as of December 31, 2010 and 2009, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 6, 2011

Financial Section

Port of Chehalis
Lewis County
January 1, 2009 through December 31, 2010

As management of the Port of Chehalis, we offer readers of the basic financial statements this narrative overview and analysis of the Port's financial activities for the fiscal years ended December 31, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

Overview of the financial statements

The Port's financial statements include two components: 1) the Port's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the Port's basic financial statements.

Condensed financial position information

The statement of net assets presents information concerning the Port's assets, liabilities and net assets. Net assets are the difference between assets and liabilities. Increases or decreases in net assets may indicate, over time, if either the financial position of the Port is improving or deteriorating. In 2010 and 2009, the Port's overall financial position has stayed fairly stable. Current and other assets increased by 8% as the Port received a loan to cover 2009 wetland mitigation expenses.

The following condensed financial information provides an overview of the Port's financial position for the fiscal year ended December 31, 2010, 2009 and 2008.

NET ASSETS

December 31, 2010, 2009 and 2008

	2010	2009	Restated 2008
Assets:			
Current and Other Assets	$ 2,917,143	$ 2,687,906	$ 4,155,579
Capital Assets, net	8,769,530	8,953,369	8,737,422
Total Assets	11,686,673	11,641,275	12,893,001
Liabilities:			
Other Liabilities	88,132	110,974	383,629
Long-term Liabilities	3,162,023	3,090,223	3,440,857
Total Liabilities	3,250,155	3,201,197	3,824,486
Net Assets:			
Invested in Capital Assets, net of related debt	6,087,385	5,863,146	5,296,565
Unrestricted	2,349,133	2,576,932	3,771,950
Total Net Assets	$ 8,436,518	$ 8,440,078	$ 9,068,515

The assets of the Port exceeded its liabilities at December 31, 2010 and December 31, 2009 by $8.4 million (*net assets*). The Port's investment in capital assets (land, structure and facilities, and construction in progress) less any related debt is 72% and 69% of total net assets at December 31, 2010 and December 31, 2009, respectively. The Port's activity has remained fairly stable.

Additionally, it reported unrestricted net assets of $2,349,133 (28%) and $2,576,932 (31%) at December 31, 2010 and December 31, 2009, respectively. Unrestricted net assets are not subject to external restrictions.

Summary of operations and changes in net assets

The statement of revenues, expenses and changes in fund net assets shows how the Port's net assets changed during the most recent fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected receivables).

The following is a condensed version of the Statement of Changes in Net Assets for the Port.

CHANGES IN NET ASSETS

Revenues	2010	2009	Restated 2008
Operating Revenues			
Property Lease & Rental	$ 167,624	$ 163,283	$ 178,988
Non-Operating Revenues			
Interest Earned	3,917	16,499	98,390
Property Taxes Levied	631,947	559,253	601,567
Other Taxes	6,642	6,104	11,754
Other Non-Operating Revenue	456,824	89,132	1,550,679
Gain on Disposal of Assets	(220)	306,172	5,320
Total Revenues	1,266,734	1,140,443	2,446,698
Expenses			
Operating Expenses			
Property Lease & Rental	87,958	84,917	95,116
Maintenance	113,799	34,420	42,214
General and Administrative Costs	449,732	489,110	369,837
Depreciation & Amortization	212,932	156,760	144,602
Non-Operating Expenses			
Interest and Fiscal Charges	141,266	157,303	171,569
Election Expense	-	2,735	-
Special Item	216,213	512,086	169,836
Extraordinary Item	55,059	166,930	1,250,432
Total Expenses	1,276,959	1,604,261	2,243,606
Excess (Deficiency) Before Contributions	(10,225)	(463,818)	203,092
Contributions	6,665	369,990	394,000
Change in Net Assets	(3,560)	(93,828)	597,092
Net Assets - Beginning	8,440,078	9,068,515	8,762,220
Prior Period Adjustments	-	(534,609)	(290,797)
Net Assets - Ending	$ 8,436,518	$ 8,440,078	$ 9,068,515

The Port's largest revenue in 2010 and 2009 was property taxes. This represents 50% and 49% of total revenues at December 31, 2010 and 2009. In 2008, grant income was the largest revenues source.

Property and Lease Rentals represent 100% of operating revenues. The largest operating activity for the Port comes from industrial and commercial park rental activity. In 2010, the activity represents 13% of total revenues and 68% of total expenses. Likewise, in 2009, the activity represents 14% of total revenues and 48% of total expenses. In contrast 2008 operating activity represents 7% of total revenues and 29% of total expenses. The large difference in expense is from the Curtis Rail repair inflating 2008 expenses. During 2009, General and Administrative Costs increased $119,000 or 7%. This was mainly caused by the following: outside services increased by $50,000 (legal fees for expensed projects and engineering services), facility rentals increased nearly $10,000 (related to wetland mitigation), change in classification of insurance $20,000 and a $22,000 increase in personnel costs and related benefits. During 2010, maintenance expenses increased 231% or nearly $80,000. The majority of this increase is from increased farming services to keep vacant land maintained.

Non-operating revenues and expenses increased in 2008 primarily due to the disaster relief received from FEMA and the related extraordinary item recognized on the rail repair. The Port recognized an 83% reduction in interest earnings from 2008 to 2009, due to the investment rate decreases and use of cash reserves for designated projects. The declining interest rate continues into 2010 creating a decrease of 76%. In 2009, the Curtis Rail repair was completed, decreasing other non operating revenue and expense by 94%.

Notes to the basic financial statements

The notes to the Port's basic financial statements can be found on pages 9-21 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

Capital asset and debt administration

Capital assets

The Port's investment in capital assets as of December 31, 2010 amounted to $8,769,530 (net of accumulated depreciation) while in 2009 it amounted to $8,953,369 (net of accumulated depreciation). The Port's investment in capital assets includes land; buildings; improvements (other than buildings); machinery and equipment; and construction in progress. The total decrease in the Port's investment in capital assets for the current year was 2% and in 2009 the capital assets increased 2% over the prior year. During 2010, very little capital asset activity occurred, while accumulating depreciating at a greater rate than adding assets. In 2009, the Port completed the rail improvements, received donated property and sold land. During 2008, the Port sold small portions of land, began rail line improvements and continued to accumulate depreciation.

	2010	2009	2008
Land	$ 5,848,145	$ 5,848,145	$ 5,877,550
Buildings and Structures	1,310,188	1,375,775	1,441,362
Other Improvements	1,602,002	1,723,824	815,768
Machinery and Equipment	-	869	1,161
Construction in Progress	9,195	4,756	601,581
	$ 8,769,530	$ 8,953,369	$ 8,737,422

Additional information on the Port's capital assets can be found in note 4 on page 13 of this report.

Long-term debt

As of December 31, 2010, the Port had total bonded debt outstanding of $3,162,023 compared to $3,090,223 at December 31, 2009. Of this amount, $1,751,217 (2010) and $2,004,631 (2009) represents general obligations bonds, $1,229,577 (2010) and $876,439 (2009) is government loans, $64,798 (2010) and $73,922 (2009) is a note payable and $116,431 (2010) and $135,231 (2009) in leases. The total long-term debt of the

Port increased by $71,800 in 2010 and decreased by over $350,000 in 2009. During 2010, a nearly $480,000 governmental loan was received, offset by $408,000 in scheduled debt service payments. The change in 2009 debt was simply scheduled debt service payments.

Additional information on the Port's long-term debt can be found in note 8 on pages 15-19 of this report.

Economic outlook

There are noteworthy issues to consider which could impact the future financial condition of the Port. These issues are:

- In its effort to create shovel ready property in a timely manner, the Port has made significant investments towards the planning, permitting and development of all Port properties over the past several years. This project should add considerable value to the Port properties as well as create an important advantage in recruiting new tenants.
- During this latest downturn in the economy, the Port has been experiencing a nominal amount of interest in business expansion into the area. While it is uncertain as to when this will improve, the Port continues its efforts to create shovel ready property. With the completion of the new LaBree Road I-5 interchange and the development of shovel ready sites, the Port is expected to be in a favorable position to enhance its ability in creating jobs and increasing operating revenue as the economy recovers.
- The funding of the programmatic mitigation plan is working towards a regional general permit (RGP). The timing of the permit is critical in having available shovel ready property. It is expected that the permit will be issued within this calendar year.
- Once the RGP is approved and the economy begins to revitalize, it is expected that the Port will be able to move its efforts from site preparation and development, to client marketing and recruitment. However, it is expected that client interest will move forward at a conservative pace, as investors proceed with caution.
- The Port may need to look at creative ways to make offers through avenues such as partnerships, step up leases, etc, in order to entice investors to make decisions for development.

Requests for information

This financial report is designed to provide a general overview of the Port's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Port of Chehalis, Executive Director, 321 Maurin Road, Chehalis, WA 98532.

PORT OF CHEHALIS
STATEMENT OF NET ASSETS
December 31, 2010 and 2009

Assets		2010		2009
Current Assets				
Cash & Cash Equivalents	$	2,464,764	$	2,113,583
Property Taxes Receivable		23,536		16,627
Due from Other Governments		26,787		136,621
Prepaid Expenses		35,786		34,235
Total Current Assets		2,550,873		2,301,066
Noncurrent Assets				
Restricted Assets - Cash Held in Escrow		3,000		2,000
Deferred Charges		20,351		23,713
Land, Building and Structures (Net Depreciation)		8,769,530		8,953,369
Plans and Studies (Net Amortization)		342,919		361,127
Total Noncurrent Assets		9,135,800		9,340,209
Total Assets		11,686,673		11,641,275
Liabilities				
Current Liabilities				
Warrants Payable	$	26,865	$	52,535
Accrued Payroll Liabilities		868		79
Taxes Payable		4,694		4,230
Customer Deposits		19,221		19,221
Unearned Revenue		3,516		4,408
Bond Payable - Current		278,483		253,414
Note/Loan Payable - Current		136,993		135,615
Capital Lease Payable - Current		18,933		18,800
Accrued Compensated Absences - Current		1,941		1,530
Interest Payable		13,790		15,747
Total Current Liabilities		505,304		505,579
Noncurrent Liabilities				
Restricted Escrow Deposit		3,000		2,000
General Obligation Bonds		1,472,734		1,751,217
Note Payable		1,157,382		814,746
Capital Lease		97,498		116,431
Accrued Compensated Absences		14,237		11,224
Total Noncurrent Liabilities		2,744,851		2,695,618
Total Liabilities		3,250,155		3,201,197
Net Assets				
Invested in Capital Assets, net of related debt		6,087,385		5,863,146
Unrestricted		2,349,133		2,576,932
Total Net Assets	$	8,436,518	$	8,440,078

The Accompanying Notes Are An Integral Part of This Statement

PORT OF CHEHALIS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For Year Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues		
Property Lease & Rental	$ 167,624	$ 163,283
Total Operating Revenues	167,624	163,283
Operating Expenses		
Property Lease & Rental	87,958	84,917
Maintenance	113,799	34,420
General and Administrative Costs	449,732	489,110
Depreciation & Amortization	212,932	156,760
Total Operating Expenses	864,421	765,207
Operating Loss	(696,797)	(601,924)
Non-Operating Revenues (Expenses)		
Interest Earned	3,917	16,499
Interest and Fiscal Charges	(141,266)	(157,303)
Taxes Levied For:		
General Purposes	631,947	559,253
Election Expense	0	(2,735)
Other Taxes	6,642	6,104
Other Non-Operating Revenue (Expense)	456,824	89,132
Gain (Loss) on Disposal of Assets	(220)	306,172
Total Non-Operating Revenues (Expenses)	957,844	817,122
Income before Contributions	261,047	215,198
Capital Contributions	6,665	369,990
Special Item - Wetland Mitigation	(216,213)	(512,086)
Extraordinary Item - Rail Line Repair	(55,059)	(166,930)
Change in Net Assets	(3,560)	(93,828)
Beginning Net Assets	8,440,078	9,068,515
Prior Period Adjustment	0	(534,609)
Ending Net Assets	$ 8,436,518	$ 8,440,078

The Accompanying Notes Are An Integral Part of This Statement

PORT OF CHEHALIS
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Cash received from customers	$ 166,732	$ 167,037
Cash payment for goods and services	(431,102)	(781,413)
Cash payments to employees	(297,969)	(271,239)
Other receipts	1,000	7,295
Other cash payments	(216,213)	(518,081)
Net cash used by operating activities	(777,552)	(1,396,401)
Cash flows from noncapital financing activities		
Receipt of court settlement	352,481	0
Receipt of other taxes	6,642	6,104
Proceeds from unrestricted property taxes	625,038	557,187
Proceeds from state loan	479,878	0
Receipt of noncapital grants	220,824	848,636
Net cash provided by noncapital financing activities	1,684,863	1,411,927
Cash flows from capital and related financing activities		
Payment on capital lease	(18,800)	(18,679)
Proceeds from sale of capital assets	0	385,352
Payment on loans and notes	(135,864)	(83,450)
Purchase of capital assets	(11,108)	(94,241)
Payment of bonds	(253,539)	(248,672)
Interest and fiscal charges paid	(139,736)	(160,122)
Net cash used for capital and related financing activities	(559,047)	(219,812)
Cash flows from investing activities		
Receipts of interest and dividends	3,917	16,499
Net cash provided from investing activities	3,917	16,499
Net increase (decrease) in cash	352,181	(187,787)
Cash and cash equivalents - January 1	2,115,583	2,303,370
Cash and cash equivalents - December 31	$ 2,467,764	$ 2,115,583
Reconciliation to balance sheet		
Cash & cash equivalents - unrestricted	2,464,764	2,113,583
Cash & cash equivalents - restricted	3,000	2,000
Cash and cash equivalents - December 31	$ 2,467,764	$ 2,115,583

The Accompanying Notes Are An Integral Part of This Statement

PORT OF CHEHALIS
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2010 and 2009

		2010		2009
Reconciliation of operating income to net cash provided (used) by operating activities				
Net operating income (loss)	$	(696,797)	$	(601,924)
Adjustments to reconcile net operating income to net cash provided by operating activities				
Depreciation and amortization		212,932		156,760
Change in assets and liabilities:				
Decrease in accounts receivable		0		0
Increase (decrease) in accounts payables		(25,670)		(285,214)
Increase in customer deposits		0		2,103
Increase in prepaid items		(1,551)		(2,133)
Increase (decrease) in other payables		4,676		15,117
Increase (decrease) in unearned revenue		(892)		1,651
Payment for special item/extraordinary item		(55,059)		(166,930)
Other non-operating revenue (expense)		(215,191)		(515,831)
Total adjustments		(80,755)		(794,477)
Net cash provided by operating activities	$	(777,552)	$	(1,396,401)

The Accompanying Notes Are An Integral Part of This Statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Chehalis (Port) was created in 1986 by a vote of the citizens of the Port District. The Port operates under the laws of the State of Washington applicable to a public port district as a municipal corporation under the provisions of Chapter 53 of the *Revised Code of Washington* (RCW). The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Port has elected not to follow the Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting board for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments.* This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The Port is a special purpose government that provides industrial and commercial property rentals to the general public. The Port's operations are supported primarily through user rents and leases and the tax levy.

An elected three-member board governs the Port. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The financial statements present the Port of Chehalis and its component unit. The component unit discussed below is included in the Port's reporting entity because of the significance of its operational and financial relationship with the Port.

Blended Component Unit
Blended component units, although legally separate entities, are in substance, part of the government's operations. The Industrial Development Corporation of the Port of Chehalis (IDC) is governed by a three member board. The members of the Port Commission serve ex officio as members of the IDC board of directors. For financial reporting purposes, the IDC is reported as if it were part of the Port's operation because its purpose is aligned with that of the Port's and its activities are controlled by the Port.

B. Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting and Reporting System 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 statements of net assets. Their reported fund equity (total net assets) is segregated into invested in capital assets, net of related debt, restricted and unrestricted net assets. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in total net assets. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The Port's principal operating revenues are charges to customers derived from commercial and industrial park property rentals. Operating expenses include the direct expenses of operating these lines of business and the general and administrative expenses of the Port as a whole, including the cost of executive management, administration, marketing, accounting, finance, legal, insurance, taxes paid and direct and indirect costs of the Port Commission itself.

The Port accounts for all other revenue and expense as non-operating revenue or expense. Items included as non-operating revenue and expense are property and other tax receipts, bond interest expense and bond principal issues, redemptions and repayments and election expenses.

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents (See Note 2)
   It is the Port's policy to invest all temporary cash surpluses. For purposes of the statement of cash flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables
   Taxes receivable consist of property taxes and related interest and penalties (See Note 3). Because such taxes are considered liens on property, no reserve for doubtful accounts has been established.

   Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Accounts receivable that are written off are charged directly against earnings when they are determined by the proper Port official to be uncollectible. Use of this method does not result in a material difference from the reserve method required by generally accepted accounting principles.

3. Inventories
   The Port maintains a small inventory of office supplies and maintenance parts. The amounts held in inventory are immaterial to the financial statements as a whole. Parts and supplies are expensed as purchased and no inventory of these items is maintained.

4. Restricted Assets and Liabilities
   The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. At December, 31, 2010, $3,000 is being held for future funding of capital repairs and improvements to the Port's rail line, in accordance with a trackage agreement.

5. Capital Assets and Depreciation (See Note 4)
   Major expenditures for capital assets, including major repairs that increase the useful lives are capitalized when purchased, if the purchase price exceeds $5,000. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. Capital assets are stated at

historical cost. Depreciation of capital assets is computed using the straight-line method, based on estimated useful lives as follows:

Asset Category	*Useful Life (years)*
Buildings and improvements	10 to 40
Land improvements	15
Trackage	20
Office furniture and equipment	7 to 10
Software and computer equipment	3 to 6

The Port acquired certain assets with funding provided by federal and state financial assistance programs. Depending upon the terms of the agreements involved, the funding governmental unit could retain an interest in these assets.

6. Other Assets
This includes unamortized bond issuance costs (deferred charges). Costs relating to the sale of bonds are amortized over the life of the bonds and expensed to interest and fiscal charges, a non-operating item.

These accounts also include plans and studies (net amortization) which represents completed plans and studies, less amortization as well as preliminary costs for plans and studies incurred for proposed construction projects. If construction results, the related costs become part of the cost of the asset; if the project is abandoned, related costs are charged to expense.

7. Compensated Absences
Compensated absences are absences for which employees will be paid, such as vacation. The Port records unpaid leave for compensated absences as an expense and liability when incurred. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement or death.

Paid leave may be accumulated up to five work weeks after the first year of employment and is payable upon separation or retirement. Employee absences are funded from current revenues when taken. Unused vacation balances may be carried over to the next year. Costs are expensed when incurred and unused leave time is accrued at year-end.

8. Other Accrued Liabilities
These accounts consist of accrued wages and accrued employee benefits.

9. Long-Term Debt (See Note 8)

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

The Port has no policy related to custodial credit risk; however, all deposits are insured or collateralized with securities held by the entity or by the agent in the Port's name.

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

The Port Treasurer was holding a total of $2,467,764, $2,115,583 and $2,303,370 in cash and cash equivalents at December 31, 2010, 2009 and 2008, respectively. The book value of deposits does not materially differ from the bank balance of deposits. As of December, 31, the carrying amount of the Port's cash and cash equivalents are as follows:

	12/31/2010	12/31/2009
Cash deposits in bank accounts	$ 74,867	$ 71,464
Washington State Local Government Investment Pool	2,392,897	2,044,119
Total cash and cash equivalents	$ 2,467,764	$ 2,115,583

Investments

As required by state law, all investments of the Port's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities or certificates of deposit with Washington State banks and savings and loan institutions. All temporary investments are stated at fair value.

The Port does not have a policy for custodial credit risk of investment securities. The only investment made by the Port is with the Washington State Treasurer's Office Local Government Investment Pool (LGIP). The LGIP is an unrated external investment pool. The Washington State Treasurer's Office Local Government Investment Pool is classified as a 2(a)7 investment pool, and therefore the Port states the fair value of its investment in the pool based upon the share price of the pool. The Port considers the amount invested in the Washington State Local Government Investment Pool to be liquid investments, and as such a cash equivalent.

Further, the Port is not subject to foreign currency risk or interest rate risk.

NOTE 3 – PROPERTY TAXES

The Lewis County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month to the Port by the County Treasurer. A revaluation of all property is required every four years.

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

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2010 was $.3831 per $1,000 on an assessed valuation of $1,651,571,221 for a total regular levy of $632,670. The Port's regular levy for 2009 was $.2942 per $1,000 on an assessed valuation of $1,724,933,181 for a total regular levy of $507,547. The Port's regular levy for 2008 was $.3198 per $1,000 on an assessed valuation of $1,688,543,242 for a total regular levy of $539,282.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2010 and 2009 was as follows:

	Beginning Balance 01/01/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital assets, not being depreciated:				
Land	5,848,145	-	-	5,848,145
Construction in Progress	4,756	4,439	-	9,195
Total capital assets, not being depreciated	$ 5,852,901	$ 4,439	$ -	$ 5,857,340
Capital assets, being depreciated:				
Buildings & Structures	1,969,469	-	-	1,969,469
Machinery and Equipment	21,151	-	21,151	0
Other Improvements	2,487,056	6,666	-	2,493,722
Total capital assets being depreciated	$ 4,477,676	$ 6,666	$ 21,151	$ 4,463,191
Less accumulated depreciation for:				-
Buildings & Structures	593,694	65,587	-	659,281
Machinery and Equipment	20,282	649	20,931	-
Other Improvements	763,232	128,488	-	891,720
Total accumulated depreciation	$ 1,377,208	$ 194,724	$ 20,931	$ 1,551,001
Total capital assets, being depreciated, net	$ 3,100,468	$ (188,058)	$ 220	$ 2,912,190
Total capital assets, net	$ 8,953,369	$ (183,619)	$ 220	$ 8,769,530

	Beginning Balance 1/1/09	Increases	Decreases	Restated Ending Balance 12/31/09
Capital assets, not being depreciated:				
Land	5,877,550	36,700	66,105	5,848,145
Constriction in Progress	601,581	41,590	638,415	4,756
Total capital assets, not being depreciated	$ 6,479,131	$ 78,290	$ 704,520	$ 5,852,901
Capital assets, being depreciated:				
Buildings & Structures	1,969,469	-	-	1,969,469
Machinery and Equipment	21,151	-	-	21,151
Other Improvements	1,491,153	995,903	-	2,487,056
Total capital assets being depreciated	$ 3,481,773	$ 995,903	$ -	$ 4,477,676
Less accumulated depreciation for:				
Buildings & Structures	528,107	65,587	-	593,694
Machinery and Equipment	19,990	292	-	20,282
Other Improvements	675,385	87,847	-	763,232
Total accumulated depreciation	$ 1,223,482	$ 153,726	$ -	$ 1,377,208
Total capital assets, being depreciated, net	$ 2,258,291	$ 842,177	$ -	$ 3,100,468
Total capital assets, net	$ 8,737,422	$ 920,467	$ 704,520	$ 8,953,369

The December 31, 2009 capital asset balance was restated to include construction in progress of $4,756 (which was previously included in plans and studies on the Statement of Net Assets), donated land of $36,700 and donated rail of $313,250, with related accumulated depreciation of $3916. See prior period adjustment note 10C.

NOTE 5 – RISK MANAGEMENT

Port of Chehalis is a member of Enduris. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract 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. Enduris was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2010, there are 451 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, 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 insurance from unrelated insurance companies that is subject to a “per occurrence:”

- $750,000 deductible on liability loss (9/1/09-12/31/09) - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $749,000 on liability loss;
- $1,000,000 deductible on liability loss (1/1/10-8/31/10) - 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 $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 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.

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.

NOTE 6 – OPERATING LEASE RECEIVABLES

The following schedule provides an analysis of the Port's investment in property on operating leases and property held for lease by major classes as of December 31:

	2010	2009
Land	$ 169,274	$ 169,274
Building	43,484	43,484
Accumulated Depreciation	(14,675)	(13,588)
Book Value of Assets	$ 198,083	$ 199,170

The following is a schedule by years of the minimum future rentals on noncancelable operating leases as of December 31, 2010:

Year ending December 31	
2011	$ 90,300
2012	64,500
2013	65,790
Total Minimum Lease Payments	$ 220,590

NOTE 7 – SHORT-TERM DEBT

No short term debt instruments were issued in 2010 or 2009.

NOTE 8 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

The Port issues general obligation bonds, governmental loans and other debt to finance the purchase and construction of capital assets. Unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discounts.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 10 to 20-year serial bonds with equal amounts of principal maturing each year. GO Bonds were issued to facilitate purchase of land and for performing infrastructure improvements at the Port's industrial parks. General obligation bonds currently outstanding at December 31, 2010 and 2009 are as follows:

Name of Issuance	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/09 Debt Outstanding	12/31/10 Debt Outstanding
1996 GO Bond	8/21/1996	12/1/2016	6.1 - 8.05%	345,000	185,000	165,000
2002 GO Bond	2/14/2002	12/1/2016	3.5 - 6%	1,115,000	940,000	830,000
2005 GO Bond	6/1/2005	6/1/2015	3.75%	640,000	381,295	317,660
2007 GO Bond	6/1/2007	3/1/2017	4.35%	650,000	499,186	439,283
Total General Obligation Bonds					$ 2,005,481	$ 1,751,943

Annual debt service requirements to maturity for general obligation bonds at December 31, 2010 are as follows:

	Principal	Interest	Total Requirements
2011	$ 278,607	$ 92,821	$ 371,428
2012	293,885	77,483	371,368
2013	309,381	61,875	371,256
2014	325,103	45,440	370,543
2015	302,359	28,246	330,605
2016-2017	242,608	12,625	255,233
	$ 1,751,943	$ 318,490	$ 2,070,433

Government Loans & Private Notes

The Port has also received government loans from the Community Economic Revitalization Board (CERB), the Public Works Trust Fund (PWTF) and entered into notes with private parties to provide for financing and construction of capital projects. The loans and notes are subordinated debt. These loans are payable from the revenues of the Port and are unsecured. Government Loans and Notes Payable outstanding at 2010 and 2009 year-end are as follows:

Name of Issuance	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/09 Debt Outstanding	12/31/10 Debt Outstanding
1993 PWTF	9/29/1993	1/1/2013	1.0%	$ 571,829	$ 163,379	$ 122,535
1993 CERB	11/1/1993	1/1/2014	1.0%	400,000	124,749	100,292
1994 PWTF	5/1/1994	7/1/2014	1.0%	389,125	138,973	111,179
Lending Network	11/14/1996	12/14/2016	6.5%	150,000	73,923	64,798
1998 CERB - Road	1/1/1998	1/1/2014	3.0%	100,000	41,145	34,783
1998 CERB - Building	7/1/1998	7/1/2017	1.0%	410,000	205,000	184,500
1999 USDA Loan	6/22/1999	12/22/2028	4.75%	260,100	203,192	196,410
2009 CERB Loan	12/24/2009	1/31/2030	2.00%	500,000	0	479,878
Total Government Loans & Notes					$ 950,361	$ 1,294,375

Annual debt service requirements to maturity for government loans and notes payable at December 31, 2010 were as follows:

	Principal	Interest	Total Requirements
2011	$ 136,993	$ 30,436	$ 167,429
2012	138,408	27,097	165,505
2013	139,896	24,717	164,613
2014	100,610	22,267	122,877
2015	59,875	20,150	80,025
2016-2020	298,290	75,282	373,572
2021-2025	218,822	44,208	263,030
2026-2030	201,481	13,209	214,690
	$ 1,294,375	$ 257,366	$ 1,551,741

B. Operating Leases

The Port leases certain equipment under noncancelable operating leases. The total cost for such leases was $2,255 and $1,683, respectively, for each of the years ended December 31, 2010 and December 31, 2009.

Additionally, the Port entered into a real estate lease for wetland mitigation purposes. This operating lease is cancelable if it is in the best interest of the Port or if certain conditions are no longer allowed for the lessor. The term on the lease is 50 years; annual renewals can be made if payment is accepted by the lessor. The rental expense related to this lease recognized during 2010 and 2009 was $20,000.

The schedule of operating leases payable is as follows:

Year Ending December 31		Amount
2011	$	22,255
2012		22,255
2013		22,255
2014		21,504
2015		20,000
2016-2020		80,001
2021-2025		5
2026-2030		5
2031-2035		5
2036-2040		5
2041-2045		5
2046-2050		5
2051-2055		5
2056-2057		2
Total	$	188,307

C. Capital Leases

The Port has entered into a lease agreement for financing land and building. This lease agreement qualifies as a capital lease for accounting purposes; therefore, it has been recorded at the present value of their future minimum lease payments as of the inception date.

Land acquired through capital leases has a historical cost of $270,657. The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2010 were as follows:

Year ending December 31		
2011	$	28,913
2012		27,362
2013		25,812
2014		34,069
2015		31,744
Total Minimum Lease Payments	$	147,900
Less: Interest		31,469
Present Value of Minimum Lease Payments	$	116,431

D. Conduit Debt

The Industrial Development Corporation of the Port of Chehalis (IDC), the blended component unit, has issued conduit debt in the form of non-recourse revenue bonds in order to provide capital financing for specific commercial enterprises. The purpose of these bonds is to facilitate commercial development and expansion within the Port District. Neither the Port nor the IDC have any obligation for the repayment of debt. The bonds are a direct liability of the commercial enterprises for which the bonds were issued. At December 31, 2010 and 2009, the outstanding revenue bonds are $2,350,000 and $2,480,000, respectively.

E. Changes in Long-Term Liabilities

During the year ended December 31, 2010 and 2009, the following changes occurred in long-term liabilities:

	January 1, 2010	Additions	Reductions	December 31, 2010	Due Within One Year
Bonds payable					
General obligation bonds payable	$ 2,005,481	$ 0	$ 253,538	$ 1,751,943	$ 278,607
Less deferred amounts					
For issuance premiums (discounts)	(850)	0	(124)	(726)	(124)
Total bonds payable	2,004,631	0	253,414	1,751,217	278,483
Government loans	876,439	479,878	126,740	1,229,577	127,500
Notes payable	73,922	0	9,124	64,798	9,493
Compensated absences	12,754	3,424	0	16,178	1,941
Capital leases	135,231	0	18,800	116,431	18,933
Business-type activity long-term liabilities	$ 3,102,977	$ 483,302	$ 408,078	$ 3,178,201	$ 436,350

	January 1, 2009	Additions	Reductions	December 31, 2009	Due Within One Year
Bonds payable					
General obligation bonds payable	$ 2,254,152	$ 0	$ 248,671	$ 2,005,481	$ 253,538
Less deferred amounts					
For issuance premiums (discounts)	(975)	0	(125)	(850)	(124)
Total bonds payable	2,253,177	0	248,546	2,004,631	253,414
Government loans	951,550	0	75,111	876,439	126,738
Notes payable	82,220	0	8,298	73,922	8,877
Compensated absences	7,911	4,843	0	12,754	1,530
Capital leases	153,910	0	18,679	135,231	18,800
Business-type activity long-term liabilities	$ 3,448,768	$ 4,843	$ 350,634	$ 3,102,977	$ 409,359

NOTE 9 – CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities. There are no material contingent liabilities to record.

The Port participates in a number of federal, state and locally assisted programs. The grants the Port receives under these programs are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

The Port is a defendant in various legal actions and claims which arise during the normal course of business. In the opinion of management, the outcomes of these matters are either adequately covered by insurance or would not materially affect the financial statements.

NOTE 10 – OTHER DISCLOSURES

A. Major Receivables

A major customer is defined as one who supports more than 10% of the Port's operations. Operating revenues for the year ended December 31, 2010 included $96,122 from two major customers. Likewise, operating revenues for the year ended December 31, 2009 included $98,034 from two major customers. For the year ended December 31, 2008, the Port received $95,920 of its operating revenues from two major customers. At each year end, no receivables existed from any of these major customers.

B. Defined Contribution Pension Plan

The Port of Chehalis Deferred Compensation Program is a 457(B) defined contribution pension plan established to provide benefits at retirement to all participating, vested employees of the Port. This plan is administered by Nationwide Retirement Solutions. At December 31, 2010, there were 4 plan members. Plan members' minimum required contribution rate is 2%. They may contribute up to $15,000 for members less than 50 years of age and up to $20,000 for members over 50 years of age. The basic employer contribution rate is 7.6% of each participant's elective compensation. The Port does not contribute until one year of service and does not contribute unless the employee maintains the 2% contribution. Plan provisions and contribution requirements are established and may be amended by the Port. Plan investments are reported at fair value.

Eligibility Requirements:

Entry Dates:	First day of each month
Minimum Service:	None
Included Employees:	All employees

The required contribution rates expressed as a percentage of covered payrolls, as of December 31, 2009 were:

Employee (minimum)	2.0%
Employer	7.6%

The actual contributions made to the plan for the years ended December 31, were:

	Employer Contributions	Employee Contributions
2010	$9,436	$3,055
2009	11,303	3,973
2008	8,134	4,231
2007	10,580	5,058

C. Prior Period Adjustment and Restatements

The 2009 column of the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets were changed as follows:

Description	*Statement of Net Assets*	*Statement of Revenues, Expenses and Changes in Fund Net Assets*
$346,034 2009 donated land and easements along with rail improvements	Increase Land, Building and Structures (Net Depreciation)	Increase Capital Contributions
$1,046,695 – Wetland Mitigation costs accumulated in Plans and Studies to be expensed	Reduce Plans and Studies (Net Amortization)	Recognize as special item - $512,086. Prior Period Adjustment - $534,609

Additionally, on the Statement of Cash Flows, $512,086 was moved from “Purchase of Capital Assets” to “Other Cash Payments”. This is the cash outlay for the Wetland Mitigations project during 2009.

D. Subsequent Events

In 2008, the Port was awarded a $500,000 loan from the State of Washington for property improvements. The term is 15 years, with a five year deferral period, interest rate approximately 3%. $479,878 of this loan was received in 2010; the remaining $20,122 will be received in 2011.

E. Extraordinary Item

In December of 2007, a flood damaged the Rail Line on the Port’s property. The Rail Line Repair expenses are recorded as an extraordinary item on the Statement of Revenues, Expenses and Changes in Fund Net Assets. This is a significant item which is infrequent in occurrence and unusual in nature. Costs in the amount of $166,930 and $55,059 are recognized in 2009 and 2010, respectively. This project was completed during 2010.

F. Special Item

The Statement of Revenues, Expenses and Changes in Fund Net Assets report special items in the amount of $216,213 and $512,086 at December 31, 2010 and 2009, respectively. This represents expenses for building wetlands on leased property. In the future, the Department of Ecology will allow the Port to remove wetlands on Port owned property because of this project. This project is significant to the Port, within the control of management and infrequent in occurrence.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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