

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**Adams County Port District No. 1**  
**(Port of Othello)**

Audit Period  
January 1, 2012 through December 31, 2012

Report No. 1010456

Issue Date  
**September 23, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

September 23, 2013

Board of Commissioners  
Port of Othello  
Othello, Washington

***Report on Financial Statements and Federal Single Audit***

Please find attached our report on the Port of Othello's financial statements and compliance with federal laws and regulations.

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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Adams County  
January 1, 2012 through December 31, 2012**

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# Federal Summary

Port of Othello  
Adams County  
January 1, 2012 through December 31, 2012

The results of our audit of the Port of Othello 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 financial statements.

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

- ***Significant Deficiencies:*** We identified 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:

<u>CFDA No.</u>	<u>Program Title</u>
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 Port qualified as a low-risk auditee under OMB Circular A-133.

# Schedule of Audit Findings and Responses

Port of Othello  
Adams County  
January 1, 2012 through December 31, 2012

1. **The Port needs to implement internal controls to ensure complete and accurate financial reporting.**

## Background

It is the responsibility of Port management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified a significant deficiency in controls that affect the Port's ability to produce reliable financial statements and reports.

## Description of Condition

We identified the following deficiencies in internal controls, that when taken together, represent a significant deficiency:

- The Port's process for financial statement preparation, including the Schedule of Expenditures of Federal Awards (SEFA) does not ensure its financial reporting is complete, accurate and in accordance with the *Budgeting Accounting and Reporting System (BARS) Manual*.
- Procedures are not in place to ensure monthly reconciliations are performed of its accounting system to the bank statements.
- An independent review is not performed for many of the journal entries performed in 2012 or for the financial statements, including the SEFA, to ensure they are accurate and complete
- Port staff lacked the technical knowledge and experience to ensure the financial statements and supplemental schedules are prepared correctly.

## Cause of Condition

The Port has not dedicated sufficient resources to design and implement internal control processes that ensure its financial reporting is accurate and complete

## Effect of Condition

During our audit we identified the following errors, which were not detected by the Port nor corrected in its financial statements:

- Revenues and expenditures were not reconciled to bank deposits and withdrawals. Bank deposits were larger than revenues by \$1,432,931, or 29 percent. Bank withdrawals were larger than expenditures by \$1,327,146, or 30 percent.
- \$2,742,742 of non-operating expenditures was misclassified as operating expenditures.
- The Risk Management disclosure was not updated from the prior year reporting.
- A total of \$106,807 in construction expenditures was not included in its Construction-In-Progress disclosure.
- Supporting documentation could not be provided for a journal entry totaling \$26,733.

### **Recommendation**

We recommend the Port ensure adequate resources and training are provided to staff to ensure financial information and reporting are accurate and complete. We also recommend the Port establish and follow effective internal controls to ensure:

- The Port's financial reporting and SEFA preparation processes are complete, accurate, and in accordance with the BARS Manual.
- Monthly bank activity reconciliations are performed timely, documented and retained according to state retention requirements.
- An independent review is performed for all journal entries to ensure they are accurate and properly supported.
- Someone knowledgeable of the BARS Manual and independent of financial statement preparation processes performs a thorough review of the financial statements and supporting schedules to ensure they are accurate, complete, and presented in accordance with requirements.

### **Port's Response**

*The Port of Othello had a complete personnel turnover in 2012. The Director was hired in July and took over in October, and the assistant was hired in October. Due to the turnover, along with negative responses from previous administration to provide information and training, the Port has dealt with a legacy system that had to be de-coded, learned independently and understood through the lens of many different resources. The Port has and will continue to develop and maintain systems and procedures to eliminate inaccuracies, confusion and lack of controls in the future.*

*The State Auditor's Office identified the following concerns during their audit of the Port of Othello. Each concern is restated and the Port's response follows:*

1. The Port did not reconcile revenues and expenditures to bank deposits and withdrawals. Bank deposits were larger than revenues by \$1,432,931, or 29 percent. Bank withdrawals were larger than expenditures by \$1,327,146, or 30 percent.

**Port's Response**

The Port's bars numbers did not match the bars manual when the new staff came in. If the Port is given enough time, they believe they would find that the revenue and expense were posted to the same account in error and netting to zero. The Port has put into place new systems and procedures. The Port personnel will be directed to attend SAO training in preparation for the 2013 Financial Statements which will include a reconciliation of bank deposits and withdrawals as a comparison to information provided on the current financial statements. This information will be reviewed by a professional prior to submission.

2. The Port misclassified \$2,742,742 of non-operating expenditures as operating expenditures.

**Port's Response**

When asked if there was a deviation from the BARS manual, the administration pointed out the temporary reclassification of non-operating expenditures in the operating expenditures for the sake of easily locating the information on a daily basis. It was explained that the numbers would be reclassified at the end of the year for end of year analysis.

3. The Port did not update the Risk Management disclosure from the prior year.

**Port's Response**

Port personnel will be directed to contact the appropriate organization prior to submitting the Notes to the Financial Statements to obtain the most recent disclosure note.

4. The Port did not include \$106,807 in construction expenditures in its Construction in Progress disclosure.

**Port's Response**

Port personnel will be directed to attend SAO training in preparation for the 2013 Financial Statements; and the statements will be reviewed by a professional prior to submission.

5. The Port did not have supporting documentation for a journal entry totaling \$26,733.

**Port's Response**

The amount represents a reversal for cash basis adjustment purposes of various 12/31/11 liability accounts that were already audited in the last audit. The complete backup is in the auditor's 12/31/11 work papers from that audit.

Port personnel will be directed to create a file containing journal entries for the each year. Staff will be required to include supporting documentation for all entries.



## Auditor's Remarks

We thank the Port for its cooperation and assistance during the audit and look forward to reviewing the Port's corrective action during the next audit.

## Applicable Laws and Regulations

Statement on Auditing Standards (SAS) No. 115, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budget Accounting and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Internal Control,* states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

# **Status of Prior Audit Findings**

**Port of Othello  
Adams County  
January 1, 2012 through December 31, 2012**

The status of findings contained in the prior years' audit reports of the Port of Othello is provided below:

1. **The Port's internal controls are inadequate to ensure accurate accounting and financial reporting.**

Report No. 1008431, dated September 25, 2012

**Background**

Port management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls over accounting and financial reporting that could affect the Port's ability to produce reliable financial statements.

**Status**

The issue has not been resolved. We are issuing a finding over the same issue in our 2012 report.

**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***

**Port of Othello  
Adams County  
January 1, 2012 through December 31, 2012**

Board of Commissioners  
Port of Othello  
Othello, 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 Port of Othello, Adams County, Washington, as of and for the year ended December 31, 2012, 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 10, 2013. As discussed in Note 8 to the financial statements, the Port has elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2012.

***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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 1 that we consider to be significant deficiencies.

## **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*.

## **PORT'S REPOSE TO FINDING**

The Port's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Port's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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 KELLEY**  
STATE AUDITOR

September 10, 2013

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

**Port of Othello  
Adams County  
January 1, 2012 through December 31, 2012**

Board of Commissioners  
Port of Othello  
Othello, Washington

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

We have audited the compliance of the Port of Othello, Adams 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, 2012. 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, 2012.

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

Management of the Port 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

**TROY KELLEY**  
STATE AUDITOR

September 10, 2013

# **Independent Auditor's Report on Financial Statements**

**Port of Othello  
Adams County  
January 1, 2012 through December 31, 2012**

Board of Commissioners  
Port of Othello  
Othello, Washington

## ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the Port of Othello, Adams County, Washington, for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed on page 16.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 Port'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 Port'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 and results of operations of the Port of Othello, for the year ended December 31, 2012, on the basis of accounting described in Note 1.

### ***Matters of Emphasis***

As discussed in Note 8 to the financial statements, the Port has elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. 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*. This schedule is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

### ***Purpose of this Report***

The report is intended for the information and use of the management, the Board of Commissioners, federal awarding agencies and pass-through entities of the Port. 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.

## ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" in the middle.

**TROY KELLEY**  
STATE AUDITOR

September 10, 2013

# **Financial Section**

**Port of Othello  
Adams County  
January 1, 2012 through December 31, 2012**

## ***FINANCIAL STATEMENTS***

Statement of Activities Arising from Cash Transactions – 2012  
Notes to Financial Statements – 2012

## ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2012  
Notes to the Schedule of Expenditures of Federal Awards – 2012

**STATEMENT OF ACTIVITIES**  
**ARISING FROM CASH TRANSACTIONS**  
For the Year Ended December 31, 2012

OPERATING REVENUES:

611.81.20	Air - Water use revenue	\$ 266
614.01.00	Air - Spray site lease	4,979
614.02.00	Air - Fuel tank lease	1,984
614.03.00	Air - Private site lease	2,297
615.20.00	Air - Hangar rentals	10,452
616.30.00	Air - Fuel sales	38,745
641.81.10	BWS - Annual Charge Revenue	9,426
641.81.20	BWS - Water Line Revenue	11,293
641.81.30	BWS - Useage Revenue	19,249
641.81.40	BWS - Useage Surcharge	17,315
664.12.00	PM - FU 212 Bruce/Russell	7,350
664.13.00	PM - FU 181/Sunny Farms	7,412
664.14.00	PM - Land rent/Freeman Farms	11,060
664.21.00	PM - All Amer Propane Lot 1	(245)
666.91.13	PM - Evergreen Implmt Water Twr Rent	500
669.33.00	GA - Housing Auth Leasehold Tax	(223)
		<hr/>
	Total Operating Revenues	\$ 141,861

OPERATING EXPENSES:

711.44.00	Air - Avgas fuel costs	\$ 24,210
711.45.00	Air - Fuel Fees & Discounts	880
711.73.00	Air - Insurance	6,790
711.75.13	Air - Memberships, fees & educ	325
713.40.10	Air - Runway & Taxiway Maint	479
713.40.20	Air - Equip Repair & Maint	1,775
713.40.30	Air - Weed Control	9,502
713.40.40	Air - Maintenance Supplies	25
713.40.50	Air - Other maintenance	407
713.82.00	Air - Electricity	2,709
713.88.00	Air - Telephone	133
713.89.00	Air - Lights	9
719.01.00	Air - Pavement Improvemnt 2011	12,842
719.06.00	Air - 5 hangar Doors 2012	83,523
719.07.00	Air - Grading 2011-2012	1,135,393
719.08.00	Air - AIP 08 Final Phase	1,371,754
719.70.00	Air - CWIP	794
781.11.01	GA-Commissioner Compensation	16,266
781.11.02	GA - Director Salary	123,969

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**STATEMENT OF ACTIVITIES**  
**ARISING FROM CASH TRANSACTIONS**  
For the Year Ended December 31, 2012

781.11.03	GA - Hourly Wages	11,029
781.20.01	GA - Commissioner Benefits	21,697
781.20.02	GA - Director Benefits	31,212
781.20.03	GA - Hourly Benefits	3,017
781.72.01	GA - Commish Mileage Reimburse	700
781.72.02	GA - Director mileage reimburse	4,204
781.30.00	GA - Outside Services	3,617
781.31.00	GA - Attorney Fees	1,636
781.32.00	GA - Accounting and Auditing	15,565
781.41.01	GA - Office supplies	2,809
781.41.02	GA - Postage	428
781.41.03	GA - Office equipment	3,113
781.42.00	GA - Janitorial Supplies/Services	922
781.60.00	GA - Office Rent	10,788
781.73.00	GA - Insurance	3,032
781.74.00	GA - Advertising	1,053
781.75.00	GA - Membership Dues	1,787
781.79.10	GA - Meetings Expense	5,358
781.79.30	GA - Bank fees	1,298
781.80.00	GA - Office Utilities	2,213
781.88.00	GA - Telephone costs	4,436
781.90.00	GA - Miscellaneous expense	4,584
741.40.00	BWS - Operating supplies	563
741.73.00	BWS - Insurance	2,663
741.75.00	BWS - Memberships, Fees, Educ	502
743.40.20	BWS - Spray and sterilize	613
743.40.20	BWS - Weed control	51
743.40.30	BWS - Repairs & Maint	8,131
743.40.50	BWS - Water tests	293
743.40.90	BWS - Engineering	578
743.82.00	BWS - Electricity	5,073
743.88.00	BWS - Telephone	42
749.01.00	BWS - CWIP	36
759.01.00	OBP - EL68 Underground Irrig	48,998
759.02.00	OBP - Phase I	45,968
759.03.00	OBP - Perimeter Drains	11,841
761.31.00	PM - Legal fees	1,144
761.39.00	PM - Cost of Property Sold	66
763.40.10	PM - Property Maintenance	6
763.40.20	PM - Farming Opers - Airport	6,617

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**STATEMENT OF ACTIVITIES**  
**ARISING FROM CASH TRANSACTIONS**  
For the Year Ended December 31, 2012

769.01.00	PM - Farm Unit 212 Block 46	255
769.02.00	PM - Airport/Simpson Par	4,410
769.03.00	PM - Carpinito	27,117
	Total Operating Expenses	<u>\$ (3,091,249)</u>

Operating Income (loss) \$ (2,949,388)

NONOPERATING REVENUES/RECEIPTS (EXPENSES/DISBURSEMENTS):

699.11.00	GA - Interest on Cash/Investments	\$ 2,222
699.11.00	GA - Interest income	5,922
699.21.13	GA - Property tax revenue	393,502
699.99.00	GA - Miscellaneous Revenue	482
699.99.01	GA - Misc. Revenue - Adjustment	1,642
651.01.00	Air - Federal Grant Revenue - FAA	2,878,450
651.03.00	Air - Grant Revenue - DOT	42,528
799.92.00	GA - Election Expense	<u>(2,245)</u>

Total Nonoperating Revenues/Receipts (Expenses/Disbursements)	\$ 3,322,502
Net increase (decrease) in cash and investments	373,114
Beginning balance of cash and investments	2,625,186
 ENDING BALANCE OF CASH AND INVESTMENTS	 <u><u>\$ 2,998,300</u></u>

- Legend:
- Air = Airport
  - BWS = Bruce Water System
  - GA = General Administration
  - OBP = Othello Business Park
  - PM = Property Management

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Othello (“Port”) was incorporated in 1966 as Adams County Port District #1 and operates under the laws of the State of Washington applicable to a port district.

1. Reporting Entity

The Port of Othello is a special purpose government that owns and operates the Othello Municipal Airport, the Bruce Water System, the Othello Business Park, and separate parcels in Bruce with the largest being 42 acres. The Port leases much of its land to local farmers who raise a variety of crops. The port also leases hangars at the airport. The Port is supported primarily through user charges and the property tax levy.

The following is a summary of the significant policies, including identification of those policies which result in material departures from generally accepted accounting principles (GAAP).

2. Basis of Accounting

The accounting records of the Port of Othello are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port of Othello uses the Budgeting, Accounting and Reporting System for Cash Basis Port Districts.

The accounts of the Port of Othello are maintained on the basis of funds. For reporting purposes, the activities of all the Port’s funds are combined.

The Port of Othello uses the cash basis of accounting where revenues are recognized only when received and expenses are recognized when paid.

3. Cash

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

4. Deposits

The Port of Othello’s deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

5. Capital Assets

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are recorded as expenses when purchased. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs, and minor renewals are accounted for as expenses when paid.

6. Investments See NOTE 2 – INVESTMENTS

7. Compensated Absences

Vacation pay may be accumulated up to 360 hours and is payable upon separation or retirement.

Sick leave may accumulate up to 520 hours. Upon separation or retirement employees do not receive payment for unused sick leave.

8. Long-Term Debt See NOTE 4 – LONG-TERM DEBT AND CAPITAL LEASES

9. Risk Management

The Port of Othello 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 counties and two 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, 2011, there are 468 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 insure vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee honesty 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”:

\$1,000,000 deductible on liability loss – member is responsible for the first \$1,000 of the deductible amount of each claim, 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, 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 year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one 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 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 2 – INVESTMENTS

##### 1. Investments

The Port of Othello's investments are insured, registered or held by the Port of Othello or its agent in the Port of Othello's name.

Investments by type at December 31, 2012 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
Washington State Local Government Investment Pool (Adams County is the agent)	\$1,733,904
Sterling Bank Money Market Account	<u>\$1,236,297</u>
Total Investments	\$2,970,201

#### NOTE 3 – PROPERTY TAX

The county treasurer acts as an agent to collect property tax 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 revenues are recognized when cash is received. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied.

The Port of Othello's regular levy for 2012 was \$ 0.417966 per \$1,000 on an assessed valuation of \$935,197,128 for a total regular levy of \$390,881.

#### NOTE 4 – LONG-TERM DEBT AND CAPITAL LEASES

The Port of Othello has no long-term debt or capital leases.

#### NOTE 5 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects for which authorizations total \$7,077,260. Of the committed balance of \$3,225,983 the Port of Othello will be required to raise \$80,650.

#### NOTE 6 – PENSION PLANS

Substantially all of the Port of Othello's full-time and qualifying part-time employees participate in the PERS II retirement plan administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Port of Othello's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

#### NOTE 7 – CONTINGENCIES AND LITIGATIONS

The Port of Othello does not currently have any contingencies or litigations.

#### NOTE 8 - OTHER DISCLOSURES

Two important events took place in 2012: (1) The Port of Othello staff, made up of the Port Manager and the Administrative Assistant, resigned; (2) The accounting system was converted from the accrual basis of accounting to cash basis accounting.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended December 31, 2012**

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award I.D. Number	Expenditures			Foot Note Ref.
				From Pass-Through Awards	From Direct Awards	Total Amount	
Federal Aviation Administration (faa), Department Of Transportation/	Airport Improvement Program	20.106	Proj. No. AIP #3-53-0044-06	9,238	9,238		
Federal Aviation Administration (faa), Department Of Transportation/	Airport Improvement Program	20.106	Proj. No. AIP #3-53-0044-07	1,083,505	1,083,505		
Federal Aviation Administration (faa), Department Of Transportation/	Airport Improvement Program	20.106	Proj. No. AIP #3-53-0044-05	26,119	26,119		
Federal Aviation Administration (faa), Department Of Transportation/	Airport Improvement Program	20.106	Proj. No. AIP #3-53-0044-08	1,257,874	1,257,874		
<b>Total CFDA 20.106 0</b>				<b>2,376,736</b>	<b>2,376,736</b>		
<b>Total Federal Awards Expended: 0</b>				<b>2,376,736</b>	<b>2,376,736</b>		

The accompanying Notes to the Schedule of Expenditures of Federal Awards is an integral part of this statement.

**ADAMS COUNTY PORT DISTRICT NO. 1  
PORT OF OTHELLO**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012**

**NOTE 1 - BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the Port of Othello's financial statements. The Port of Othello uses the cash basis of accounting.

**NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port of Othello's portion, are more than shown.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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

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

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

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

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

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

**State Auditor**  
**Chief of Staff**  
**Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
**Barb Hinton**  
**Thomas Shapley**  
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