

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

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**Pangborn Memorial Airport**  
**Douglas County**

Audit Period  
**January 1, 2012 through December 31, 2012**

**Report No. 1010553**

Issue Date  
**September 27, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

September 27, 2013

Board of Commissioners  
Pangborn Memorial Airport  
East Wenatchee, Washington

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

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

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

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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# Federal Summary

## **Pangborn Memorial Airport Douglas County January 1, 2012 through December 31, 2012**

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

### **FINANCIAL STATEMENTS**

An unmodified opinion was issued on the basic financial statements.

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

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

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

### **FEDERAL AWARDS**

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

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

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

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

***Identification of Major Programs:***

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

<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.

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

**Pangborn Memorial Airport  
Douglas County  
January 1, 2012 through December 31, 2012**

Board of Commissioners  
Pangborn Memorial Airport  
East Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Pangborn Memorial Airport, Douglas County, Washington, as of and for the year ended December 31, 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 16, 2013.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

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

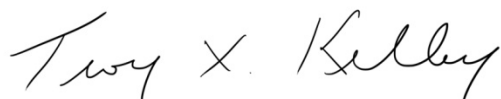
## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

September 16, 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

## **Pangborn Memorial Airport Douglas County January 1, 2012 through December 31, 2012**

Board of Commissioners  
Pangborn Memorial Airport  
East Wenatchee, Washington

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

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

**TROY KELLEY**  
STATE AUDITOR

September 16, 2013

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

**Pangborn Memorial Airport  
Douglas County  
January 1, 2012 through December 31, 2012**

Board of Commissioners  
Pangborn Memorial Airport  
East Wenatchee, Washington

## **COMPLIANCE**

We have audited the compliance of the Pangborn Memorial Airport, Douglas County, Washington, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port's compliance with those requirements.

In our opinion, the Pangborn Memorial Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2012.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the Port's internal

control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

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

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

This report is intended for the information management, the Board of Commissioners and the Federal Aviation Administration. 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

# Independent Auditor's Report on Financial Statements

## **Pangborn Memorial Airport Douglas County January 1, 2012 through December 31, 2012**

Board of Commissioners  
Pangborn Memorial Airport  
East Wenatchee, Washington

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

We have audited the accompanying financial statements of the Pangborn Memorial Airport, Douglas County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 13.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 of the Pangborn Memorial Airport, as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 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 cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 16, 2013

# Financial Section

## **Pangborn Memorial Airport Douglas County January 1, 2012 through December 31, 2012**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2012

Statement of Revenues, Expenses and Changes in Net Position – 2012

Statement of Cash Flows – 2012

Notes to Financial Statements – 2012

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

Schedule of Passenger Facility Charges Collected, Held and Used – 2012

Notes to the Schedule of Passenger Facility Charges Collected, Held and Used – 2012

Schedule of Expenditures of Federal Awards – 2012

Notes to the Schedule of Expenditures of Federal Awards – 2012



Pangborn Memorial Airport  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2012

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

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

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

### Financial Statements

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

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

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

- Net Investment in Capital Assets. This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other related borrowings that are attributable to the acquisition, construction or improvement of those capital assets.
  - Restricted. This component of net position consists of assets in which creditors, grantors, laws or regulations have placed constraints.
  - Unrestricted. This component consists of all remaining assets.
2. Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement is similar to an income statement and includes operating revenues, such as rental income and other tenant revenue, operating expenses, such as administrative expenses, utilities, maintenance and depreciation, and non-operating revenue and expenses, which includes grant revenue, passenger facility funds, investment income and interest expense.

Pangborn Memorial Airport  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2012

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

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

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

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

	2012	2011 (AS RESTATED)
Current and other assets	\$ 436,728	\$ 327,024
Restricted assets	522,483	328,038
Capital assets	18,977,675	18,950,771
Total Assets	<u>\$ 19,936,886</u>	<u>\$ 19,605,833</u>
Current liabilities	\$ 327,746	\$ 409,239
Noncurrent liabilities	612,755	622,754
Total Liabilities	940,501	1,031,993
Net Position		
Net investment in capital assets	18,318,272	18,140,256
Restricted	522,483	328,038
Unrestricted	155,630	105,546
Total Net Position	<u>18,996,385</u>	<u>18,573,840</u>
Total Liabilities and Net Position	<u>\$ 19,936,886</u>	<u>\$ 19,605,833</u>

**Total Assets**

The Airport's total assets at December 31, 2012 were \$19,936,886, an increase of \$331,053 from December 31, 2011. The increase is due primarily to the continuing construction in progress. Passenger Facility Charge funds held in account at the end of the year were \$522,483, an increase of \$194,445 from December 31, 2011. This is due to a multi-year application, with funds being accumulated for the purchase of a new Aircraft Rescue and Firefighting truck. Subsequent to 2012, PFC Application 13-11-C-00-EAT was approved and a portion of the accumulated funds will also be used to fund improvements

Pangborn Memorial Airport  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2012

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Total Assets - continued

to the existing fire station to accommodate the larger truck, and for security improvements in the passenger terminal.

Total Liabilities

The Airport's total liabilities at December 31, 2012 were \$940,501, a decrease of \$91,492 from December 31, 2011. Long-term debt decreased by \$37,175. Accounts payable decreased significantly due to timing of construction in progress billings and the lack of payables at year-end.

Total Net Position

The Airport's financial position improved as net position increased by \$422,545.

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

	<u>2012</u>	<u>2011</u> <u>(AS RESTATED)</u>
Revenue		
Operating revenues	\$ 1,354,987	\$ 998,718
Nonoperating revenues	<u>130,915</u>	<u>704,074</u>
Total Revenues	1,485,902	1,702,792
Expenses		
Operating expenses	2,759,294	2,349,246
Nonoperating expenses	<u>33,260</u>	<u>23,786</u>
Total Expenses	<u>2,792,554</u>	<u>2,373,032</u>
Loss before capital grants	(1,306,652)	(670,240)
Capital grants	<u>1,729,197</u>	<u>865,620</u>
Change in Net Position	<u>\$ 422,545</u>	<u>\$ 195,380</u>

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

Operating revenue increased 35.7% in 2012 reflecting an increase in:

- Fuel service operations

Pangborn Memorial Airport  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2012

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

- Landing fees
- Aviation and non-aviation land income

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

In 2012, capital grants increased by 99.8%. The Taxiway Alpha Lighting and Airfield Improvements project continued as well as work on the Runway 12/30 Environmental Assessment.

Operating expenses increased 17.5% in 2012, reflecting an increase in:

- Fuel service operations (fuel, wages, supplies, etc.)
- Professional fees for Airport director search and joint operating agreement discussions
- Equipment, building and vehicle repairs
- Depreciation
- Winter operations/snow and ice removal

**Economic Factors**

Significant economic factors affecting the Airport include:

- Commercial air traffic was up 1% for the year, compared to 2011. Income from general aviation users such as hangar rent, fuel flow and landing fees increased. The airport began providing 100LL AvGas and Jet A fuel and services on the airfield on January 1, 2012 after the fixed based operator terminated their agreement, affecting both operating income and expense. The option was given to hangar tenants to purchase reversionary interest in their facilities and enter into a new 30-year lease. A second airline, SeaPort Airlines, Inc., provided service to Portland and Yakima from March to mid-December 2012, significantly boosting landing fees and airline terminal rental income.

After four years and 23 extensions, the Federal Aviation Administration Reauthorization Bill was finally passed. While this eliminates some of the uncertainty of funding for capital projects, the sponsor's match for Airport Improvement Program projects will be reset to 10%. The sponsor's match for grants awarded prior to February 2012 was 5%.

Pangborn Memorial Airport  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2012

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**Request for Information**

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

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

Pangborn Memorial Airport  
STATEMENT OF NET POSITION  
December 31, 2012

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ASSETS									

**CURRENT ASSETS**

Cash held by Chelan County Treasurer	
General fund	\$ 36,544
State pooled investments	39,202
Bank accounts	18,248
Cash on hand	<u>1,467</u>

Total cash and cash equivalents [Note 2] 95,461

Accounts receivable	57,676
Grants receivable	133,587
Prepaid expenses	54,669
Fuel inventory	<u>95,335</u>

Total current assets 436,728

**NONCURRENT ASSETS**

Restricted assets	
Cash in bank - Passenger facility fund	522,483

Capital assets [Note 3]	
Land and right-of-way	4,804,646
Buildings	6,136,777
Improvements other than buildings	14,825,529
Machinery and equipment	2,105,044
Construction in progress	<u>2,076,641</u>
Total costs	29,948,637
Less accumulated depreciation	<u>10,970,962</u>

Total capital assets 18,977,675

**TOTAL ASSETS** \$ 19,936,886

*See accompanying notes to the financial statements*

Pangborn Memorial Airport  
STATEMENT OF NET POSITION  
December 31, 2012

LIABILITIES AND NET POSITION									

CURRENT LIABILITIES

Accounts payable	\$ 80,443
Retainage in escrow	62,340
Accrued taxes and benefits	23,920
Accrued vacation payable	23,898
Accrued interest	3,917
Operating note payable [Note 7]	95,000
Long-term debt payable within one year [Note 8]	<u>38,228</u>
Total current liabilities	327,746

NONCURRENT LIABILITIES

Deposits	76,131
Long-term debt payable after one year [Note 8]	<u>536,624</u>
Total noncurrent liabilities	<u>612,755</u>
Total liabilities	940,501

NET POSITION

Net investment in capital assets	18,318,272
Restricted	522,483
Unrestricted	<u>155,630</u>
Total net position	<u>18,996,385</u>

TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 19,936,886</u></u>
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See accompanying notes to the financial statements

Pangborn Memorial Airport

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION

For the Year Ended December 31, 2012

OPERATING REVENUES

Rent [Note 10]	
Parking	\$ 185,269
Aviation land	124,285
Space/concessions	237,614
Non-aviation land	83,087
Fuel service operations	593,705
Landing fees	80,202
Aviation fuel flowage fee	15,485
Security badge income	3,160
Misc. fees, permits and reimbursements	32,180
	<hr/>
Total operating revenues	1,354,987

OPERATING EXPENSES

Depreciation	881,033
Salaries	469,973
Fuel service operations	
Fuel	419,337
Wages	72,363
Payroll taxes and benefits	28,194
Office and computer	18,549
Small tools and supplies	15,485
Merchant fees	13,158
Other expenses	42,837
Employee benefits [Note 5]	148,386
Insurance [Note 6]	80,060
Other professional services	69,001
Utilities	54,013
Taxes - payroll	48,214
Computer supplies and maintenance	46,279
Vehicle expense	36,091
Land lease expense [Note 8]	32,125
Repairs	
Equipment	34,944
Runways and aprons	32,551
Vehicles	24,010
Buildings	22,462
Legal expense	36,333
Accounting services	26,807

See accompanying notes to the financial statements



Pangborn Memorial Airport

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION

For the Year Ended December 31, 2012

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OPERATING EXPENSES - continued

Conventions, meetings and travel	\$ 23,126
Terminal building expense	19,803
State audit	15,658
Office expenses and telephone	13,526
Advertising and promotion	9,785
Janitor supplies	9,356
Crash fire rescue expense	9,059
Security expense	4,030
Subscriptions and memberships	1,479
Miscellaneous supplies - shop	492
Other expenses	<u>775</u>

Total operating expenses	<u>2,759,294</u>
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OPERATING LOSS	(1,404,307)
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NON-OPERATING REVENUES (EXPENSES)

Operating grants [Note 9]	565,261
Passenger facility income	197,522
Advertising income	4,762
Interest income	176
Grant expense (Douglas County - Airport Way)	(613,375)
Loss on disposal of assets	(23,431)
Interest expense	<u>(33,260)</u>

Total non-operating revenues (expenses)	<u>97,655</u>
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LOSS BEFORE CAPITAL GRANTS	(1,306,652)
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Capital grants	<u>1,729,197</u>
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CHANGE IN NET POSITION	422,545
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NET POSITION - BEGINNING OF YEAR	<u>18,573,840</u>
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NET POSITION - END OF YEAR	<u><u>\$ 18,996,385</u></u>
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*See accompanying notes to the financial statements*

Pangborn Memorial Airport  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2012

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers		\$ 1,362,368
Payments to suppliers		(1,333,441)
Payments to employees		(542,360)
Net cash used by operating activities		(513,433)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants		557,367
Nonoperating revenues		202,284
Borrowings on operating note payable		35,000
Payments on operating note payable		(17,596)
Capital grant expense		(613,375)
Net cash provided by noncapital financing activities		163,680
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital passenger facility fund		(194,445)
Capital grants received		1,727,322
Proceeds from disposal of assets		37,966
Acquisition of capital assets		(1,113,320)
Payments on long-term debt payable		(37,175)
Interest paid		(33,563)
Net cash provided by capital and related financing activities		386,785
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments		176
<b>NET INCREASE IN CASH</b>		<b>37,208</b>
<b>CASH - BEGINNING OF YEAR</b>		<b>58,253</b>
<b>CASH - END OF YEAR</b>		<b>\$ 95,461</b>

See accompanying notes to the financial statements

Pangborn Memorial Airport  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2012

RECONCILIATION OF OPERATING LOSS TO NET					
CASH USED BY OPERATING ACTIVITIES					
			Operating loss		\$ (1,404,307)
			Noncash expense		
			Depreciation		881,033
			(Increase) decrease in operating assets		
			Accounts receivable		(21,568)
			Prepaid expenses		(5,041)
			Fuel inventory		(36,118)
			Increase (decrease) in operating liabilities		
			Accounts payable		(6,786)
			Retainage in escrow		47,056
			Accrued taxes and benefits		3,373
			Accrued vacation payable		(24)
			Deposits		28,949
			Net cash used by operating activities		<u>\$ (513,433)</u>
NONCASH CAPITAL AND RELATED					
FINANCING ACTIVITIES					
			Capital assets included in accounts payable		<u>\$ 22,211</u>

See accompanying notes to the financial statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting entity

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

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

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

### B. Basis of accounting

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Basis of accounting - continued

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

C. Assets, liabilities and net position

1. Cash and cash equivalents

It is the Airport's policy to invest all temporary cash surpluses. At December 31, 2012, the treasurer was holding \$39,202 in short-term residual investments of surplus cash.

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

2. Accounts receivable

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

3. Inventory

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Assets, liabilities and net position - continued

4. Restricted assets

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

PFC Application 10-10-C-00-EAT began May 1, 2010 and is projected to expire July 31, 2014. Funds of \$3,077 were expended in 2012 to cover the sponsor's share of Runway 12/30 environmental assessment. Funds are being accumulated for the purchase of a new Aircraft Rescue and Firefighting truck. Subsequent to 2012, PFC Application 13-11-C-00-EAT was approved and a portion of the accumulated funds will also be used to fund improvements to the existing fire station to accommodate the larger truck, and for security improvements in the passenger terminal.

5. Capital assets

See Note 3.

6. Compensated absences

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

7. Deferred compensation

The Airport employees are eligible to participate in the Washington State employees deferred compensation plan. The annual contribution limits are the lesser of \$17,000 or 100% of the employee's gross salary.

8. Long-term debt

See Note 8.

9. Leases

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

10. Advertising expenses

The airport expenses advertising costs as incurred. No direct response advertising is conducted; therefore, no advertising costs have been capitalized. Advertising expense for 2012 was \$5,952.

11. Use of estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

- A. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost.

The Airport has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Airport has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight line method with useful lives of 5 to 40 years for buildings and land improvements, and 3 to 16 years for equipment.

- B. Capital assets activity for the year ended December 31, 2012 as follows:

	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital assets not being depreciated:				
Land and right-of-way	\$ 4,804,646	\$ -	\$ -	\$ 4,804,646
Construction in progress	1,397,036	1,484,651	805,046	2,076,641
<b>Total capital assets, not being depreciated</b>	<b>\$ 6,201,682</b>	<b>\$ 1,484,651</b>	<b>\$ 805,046</b>	<b>\$ 6,881,287</b>
Capital assets, being depreciated:				
Buildings	\$ 6,105,852	\$ 47,971	\$ 17,046	\$ 6,136,777
Improvements other than buildings	15,016,858	21,411	212,740	14,825,529
Machinery and equipment	1,923,477	220,347	38,780	2,105,044
<b>Total capital assets being depreciated</b>	<b>23,046,187</b>	<b>289,729</b>	<b>268,566</b>	<b>23,067,350</b>
Less accumulated depreciation for:				
Buildings	2,233,710	152,548	9,893	2,376,365
Improvements other than buildings	6,312,156	609,504	158,496	6,763,164
Machinery and equipment	1,751,232	118,981	38,780	1,831,433
<b>Total accumulated depreciation</b>	<b>10,297,098</b>	<b>881,033</b>	<b>207,169</b>	<b>10,970,962</b>
<b>Total capital assets being depreciated, net</b>	<b>\$ 12,749,089</b>	<b>\$ (591,304)</b>	<b>\$ 61,397</b>	<b>\$ 12,096,388</b>



NOTE 3 - CAPITAL ASSETS AND DEPRECIATION - continued

C. Construction commitments

Grant projects open as of December 31, 2012, consist of the following:

AIP Grant 31 - The Transportation Security Administration (TSA) mandated extension to the departure lounge wall under this grant was completed and capitalized in 2012. The 2012 costs were \$43,550.

AIP Grant 32 - Airport Way construction costs were approximately \$7,072 for 2012. The project was completed in 2012, with total costs for the multi-year project being \$613,375. These amounts were expensed at the close-out of construction, when the property title was transferred to Douglas County.

In addition, \$82,621 of costs related to Runway 12/30 Environmental Assessment Phase I remain in construction in progress until the project has been completed.

AIP Grant 33 - Runway 12/30 Environmental Assessment Phase II - \$23,385 was expended in 2012. Final acceptance by the FAA was not granted in 2012 so the grant was open at year's end. Subsequent to the end of the year the FAA issued a Finding of No Significant Impact and the project will be closed in 2013.

AIP Grant 34 - Taxiway Alpha Lighting and Airfield Improvements construction and engineering costs were \$1,147,337 in 2012. The Airport's Automated Weather Observation System (ASOS) equipment will be relocated to the new electrical vault in the summer of 2013 and the project will be complete. This project was partially funded with Washington State Department of Transportation Aviation Division funding.

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

## NOTE 5 - PENSION PLANS

Substantially all Airport full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, Accounting for Pensions by State and Local Government Employers and the GASB Statement 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

### **Public Employees' Retirement System (PERS) Plans 1, 2 and 3**

#### Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

NOTE 5 - PENSION PLANS - continued

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is further reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional Cost of Living Adjustment (COLA) that provides an automatic annual adjustment based on the Consumer Price Index (CPI). The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55,

NOTE 5 - PENSION PLANS - continued

the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the CPI), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the CPI), capped at three percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW (Revised Code of Washington), employee contribution

NOTE 5 - PENSION PLANS - continued

rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

NOTE 5 - PENSION PLANS - continued

There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at three percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not

NOTE 5 - PENSION PLANS - continued

be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits		79,363
Terminated plan members entitled to but not yet receiving benefits		29,925
Active plan members vested		105,578
Active plan members nonvested		46,839
<b>Total</b>		<b>261,705</b>

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the JBM Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

Pangborn Memorial Airport  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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NOTE 5 - PENSION PLANS - continued

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, were as follows:

	<b><u>PERS Plan 1</u></b>	<b><u>PERS Plan 2</u></b>	<b><u>PERS Plan 3</u></b>
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

- \* The employer rates include the employer administrative expense fee currently set at 0.16%.
- \*\* The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
- \*\*\* Plan 3 defined benefit portion only.
- \*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
- \*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	<b><u>PERS Plan 1</u></b>	<b><u>PERS Plan 2</u></b>	<b><u>PERS Plan 3</u></b>
2012	\$ 2,071	\$ 23,267	\$ 11,557
2011	2,735	24,856	3,863
2010	2,719	17,599	3,199

The Airport's covered payroll for the year ended December 31, 2012 was \$534,141.

NOTE 6 - RISK MANAGEMENT

The Airport is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC (Washington Administrative Code), and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.



NOTE 6 - RISK MANAGEMENT - continued

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

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

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

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

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

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.

Pangborn Memorial Airport  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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NOTE 6 - RISK MANAGEMENT - continued

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

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

NOTE 7 - OPERATING NOTE PAYABLE

A note payable (line of credit) to the Port of Chelan County for operational cash flow was payable on or before December 31, 2012. Interest was to be paid on an annual basis on the 15<sup>th</sup> of September. The interest rate is the rate in effect and provided by the Chelan County Treasurers' Investment Pool Account. The maximum principal limitation was \$150,000.

Beginning balance 1/1/12	Additions	Repayments	Ending balance 12/31/12
\$ 77,596	\$ 35,000	\$ 17,596	\$ 95,000

Subsequent to year end, the Port of Chelan County and Port of Douglas County signed a new MOU (Memorandum of Understanding). As a result of this MOU, the entire note payable was cancelled, and replaced with a direct repayment from the Port of Douglas County to the Port of Chelan County for their 30% share of the obligation.

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

NOTE 8 - LONG-TERM DEBT AND LEASES

Long-term debt

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

NOTE 8 - LONG-TERM DEBT AND LEASES - continued

Long-term debt - continued

- B. A note payable to the East Wenatchee Water District for a ULID is payable annually at \$168, plus interest at 5.25%, and matures in August of 2020.
- C. A real estate contract payable to Angeline B. Schall for the purchase of real estate is payable annually at \$20,488, including interest at 7.00%, and matures November 5, 2018.
- D. A real estate contract payable to James C. Sell for the purchase of real estate is payable monthly at \$2,102, including interest at 5.00%, with the balance due on September 1, 2016.

	Beginning balance 1/1/12	Additions	Reductions	Ending balance 12/31/12	Amounts due within one year
Note A.	\$ 87,139	\$ -	\$ 9,683	\$ 77,456	\$ 9,682
Note B.	1,516	-	169	1,347	168
Contract C.	165,751	-	19,147	146,604	20,488
Contract D.	357,621	-	8,176	349,445	7,890
Totals	<u>\$ 612,027</u>	<u>\$ -</u>	<u>\$ 37,175</u>	<u>\$ 574,852</u>	<u>\$ 38,228</u>

Annual debt service payments to maturity are as follows:

	Principal	Interest
2013	\$ 38,228	\$ 31,728
2014	40,066	29,373
2015	42,025	26,898
2016	359,491	20,322
2017	36,706	5,963
2018-2020	58,336	4,953
Total	<u>\$ 574,852</u>	<u>\$ 119,237</u>

NOTE 8 - LONG-TERM DEBT AND LEASES - continued

Operating leases

Beginning April 25, 1997, the Airport leases from the Port of Douglas County 11.11 acres with improvements, referred to as Airside Lot 3, for 50 years, plus five, five year options. This has been subleased to Executive Flight, Inc. The monthly lease payment is \$2,677. Land lease expense was \$32,124 for 2012.

Future minimum lease payments are as follows:

2013		\$ 32,124
2014		32,124
2015		32,124
2016		32,124
2017		32,124
2018-2022		160,620
2023-2027		160,620
2028-2032		160,620
2033-2037		160,620
2038-2042		160,620
2043-2047		139,204
Total		<u>\$ 1,102,924</u>

Capital leases

The Airport has no capital leases as of December 31, 2012.

NOTE 9 - JOINT OPERATING AGREEMENT

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

The Port of Douglas County acts as the developer and manager of all non-aviation dependent property. The Port of Chelan County assumes managerial oversight for the aviation aspects and use of the airport. The MOU signed subsequent to year end limits the Port of Douglas County management and leasing oversight to the Port of Douglas County industrial park as defined in existing lease agreements between the Port of Douglas County and the Airport.

**NOTE 9 - JOINT OPERATING AGREEMENT - continued**

The agreement provides that the Port of Chelan County will fund 70% of budget requests and that the Port of Douglas County will fund 30%.

Subsequent to year end, the Port of Chelan County and Port of Douglas County signed a new MOU to define their relationship regarding the operation and funding of the airport. The Port of Chelan County's financial commitments are anticipated to increase in light of Port of Douglas County's requested cap on annual financial commitments. It is anticipated this new MOU will not have a material effect on the operations of the airport.

**NOTE 10 - OTHER DISCLOSURES**

Long-term leases

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

The major leases are summarized as follows:

**Land and terminal space**

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

Alaska Airlines/Horizon Air is the carrier leasing terminal space and providing airline services to the Airport. SeaPort Airlines, Inc. served the community from March to mid-December 2012.

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

**Car rental leases**

The Budget Rent-A-Car, Hertz Rent-A-Car and Enterprise Rent-A-Car annual leases include office space in the terminal and rent for parking spaces.

NOTE 10 - OTHER DISCLOSURES - continued

Long-term leases - continued

**Other leases**

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

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

Minimum future rents, commissions, landing fees, etc. on non-cancelable leases for the five years succeeding December 31, 2012 are as follows:

2013			\$ 615,411
2014			619,630
2015			628,429
2016			641,112
2017			654,789

NOTE 11 - SUBSEQUENT EVENTS

The Airport has evaluated subsequent events through April 18, 2013, the date which the financial statements were available to be issued.

**Pangborn Memorial Airport**  
**Schedule of Passenger Facility Charges Collected, Held and Used - 2012**

	Quarter Ending			
	March 2012	June 2012	September 2012	December 2012
Unexpended passenger facility charges and interest, beginning of period	328,039	376,845	421,320	470,867
Add:				
Passenger Facility Charge Revenue	48,524	46,592	49,451	52,214
Interest Earned	282	324	97	39
Total Revenue Available	376,845	423,761	470,867	523,119
Expenses/Expenditures	0	2,441	0	635
Unexpended passenger facility charges and interest, end of period	376,845	421,320	470,867	522,484

**Pangborn Memorial Airport  
Notes to the Schedule of Passenger Facility Charges  
Collected, Held and Used  
For The Year Ended December 31, 2012**

**Note 1 – Basis of Accounting**

The Schedule is prepared generally on the same basis of accounting as the Pangborn Memorial Airport's financial statements. However, while the Airport uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented represent only those revenues actually received for the quarter reported. PFC revenues not received prior to the end of each quarter are not accrued and are reported as revenues of the subsequent reporting period.

**Note 2 – Program Costs**

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



## For the Year Ended December 31, 2012

1  Federal Agency Name/ Pass-Through Agency Name	2  Federal Program Name	3  CFDA Number	4  Other I.D. Number	5  Expenditures		
				From Pass-Through Awards	From Direct Awards	Total
US Department of Transportation	Airport Improvement Program	20.1060	DOT-FA09NM-0129 3-53-0084-031	\$ -	\$ 36,922	\$ 36,922
US Department of Transportation	Airport Improvement Program	20.1060	DOT-FA10NM-0102 3-53-0084-032		\$ 6,719	\$ 6,719
US Department of Transportation	Airport Improvement Program	20.1060	DOT-FA11NM-0005 3-53-0084-033		\$ 22,216	\$ 22,216
US Department of Transportation	Airport Improvement Program	20.1060	DOT-FA11NM-0086 3-53-0084-034		\$ 1,134,733	\$ 1,134,733
Total						\$1,200,590

Pangborn Memorial Airport  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

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NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Airport and is prepared on the same basis of accounting as the Airport's financial statements. The Airport uses the full accrual basis of accounting.



## **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**  
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