Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port District No. 1 of Douglas County

For the period January 1, 2015 through December 31, 2015
and January 1, 2013 through December 31, 2014

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Office of the Washington State Auditor
Pat McCarthy

June 22, 2017

Board of Commissioners
Port District No. 1 of Douglas County
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on the Port District No. 1 of Douglas County's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Douglas County Port District No.1
January 1, 2013 through December 31, 2015

2015-001 The Port's internal controls over financial statement preparation were inadequate to ensure accurate reporting.

Background

Port Commissioners, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. Port management has the responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified a significant deficiency in internal controls, as defined in the American Institute of Certified Public Accountants' Codification of Statements on Auditing Standards that affects the Port's ability to produce reliable financial statements.

Description of Condition

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

- The Port had not implemented adequate procedures to ensure that all new accounting standards are thoroughly analyzed to determine applicability to Port operations.
- Port procedures related to revenue recognition were not sufficient to properly account for a certain non-standard revenue event.
- The Port relied on a certified public accounting firm to prepare its annual financial reports and notes to the financial statements, and Port management did not adequately review the financial statements to ensure they were accurately prepared.

Cause of Condition

The Port prepares its financial statements in accordance with generally accepted accounting principles (GAAP). These financial statements are complex, and the reporting requirements change frequently. Port management did not dedicate the necessary staff time or resources, including training, to ensure its financial reporting was accurate and complete.

Effect of Condition

We identified the following errors in the financial statements:

- For fiscal years 2013 and 2014, the District reported capital assets that did not exist, valued at $162,648. Because these assets were fully depreciated at the time of reporting, there was no impact on the District's net position.

- For fiscal year 2013, the District did not properly calculate its gain related to an airport that is jointly owned with the Port of Chelan County, which caused the District to understate revenues and assets by $133,398.

- For all years under audit, the District incorrectly classified about $500,000 of unrestricted net position as part of the District's net investment in capital assets. As these classifications both are components of the District's net position, total net position was not affected.

- For fiscal year 2013, the District did not properly implement changes in accounting principles related to Government Accounting Standards Board (GASB) Statement No. 65 regarding bond refunding, which resulted in minor errors in reported assets, deferred amounts and expenses that affected subsequent years.

- District lease agreements frequently require periodic increases to the lease amount; however, the District did not perform this calculation for one lease since 2004. In fiscal year 2013, the District calculated and collected the additional lease amounts, but reported the collections as a revenue in the current year, rather than properly applying the revenues to prior years. As a result, the Port overstated revenues by $75,744 in fiscal year 2013.

Recommendations

We recommend the District:

- Use the current accounting and reporting guidance provided in the State Auditor's Office *Budgeting, Accounting and Reporting Systems* (BARS) Manual when preparing its financial statements.

- Establish a formal process to evaluate the applicability of new GASB reporting standards, and obtain additional training and technical guidance as needed.

- Establish a detailed review process of the financial statements by a person knowledgeable of GAAP reporting requirements to ensure the District's financial statements are accurately prepared.

Port's Response

The Port of Douglas would like to thank the State Auditor's Office for its review of the Port's financial statements, and for the opportunity to provide the below response. With regard to the identified errors:

Prior to 2013 the District had a commercial kitchen facility that was rented to startup businesses that were preparing prepackaged foods to sell. The facility was closed in 2006 with a large portion of the equipment being transferred to the North Central Technical Skills Center for their culinary arts program. The equipment was fully depreciated and removed from the asset and accumulated depreciation in the 2015 financial statements. Thank you for noting our mistake and for recognizing there was no impact on the District's net position.

The District is a part owner, with the Port of Chelan County, in Pangborn Memorial Airport. In the joint operating agreement, there is a formula that is to be used, as determined appropriate, to establish a percentage of ownership of the property by each District. Currently, the Port of Douglas is allocated 39% ownership, based on this formula as it was most recently calculated. The percentage ownership used was incorrect in the 2013 report, and has since been corrected.

The District over stated the "Net Investment in Capital Assets" and understated "Unrestricted Net Position". Thank you for noting our mistake and for recognizing there was no impact on the District's net position. The financial reports have been corrected.

The District will designate a staff position responsible for receiving Government Accounting Standards Board (GASB) updates, and those updates applicable to the District will be implemented when they are issued.

The District has a long term land lease that includes five year increment lease increases based on a calculated Consumer Price Index (CPI). The 2004 increase was missed, and the 2009 increase was not correctly calculated. In 2013, while preparing for the upcoming 2014 increase, these mistakes were discovered, corrected and communicated with the tenant, who paid the corrected amounts. The District incorrectly reported the recaptured lease revenue as income in 2013 instead of income from prior years. Thank you for noting our mistake.

The District appreciates the State Auditor's recommendations. We will continue to use the Budgeting, Accounting and Reporting Systems (BARS) Manual for our financial administration purposes.

We will identify a staff position whose duties include collecting all new GASB reporting standards and seeking assistance from the State Auditor's Office for evaluating the applicability of the new standards to the District and helping to identify available training and technical guidance.

The District also intends to investigate the option of cash basis reporting, as prescribed in the BARS Manual, and hopes to make our financial reports more simple and easier to understand and use.

Auditor's Remarks

We appreciate the Port's commitment to resolving this matter, and we will review the changes in the Port's review process during our next audit.

Applicable Laws and Regulations

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.

Budgeting Accounting and Reporting System (BARS) Manual; Accounting, Accounting Principles and General Procedures, Internal Control, states:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> When performing GAGAS financial audits auditors should communicate in the report on internal control over financial reporting and compliance based upon the work performed,

(1) significant deficiencies and material weaknesses in internal control;

(2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance;

(3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and

(4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

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.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

Deficiency in internal control. A deficiency in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, 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. A reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

> Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
>
> Probable. The future event or events are likely to occur.

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

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 District No. 1 of Douglas County
January 1, 2015 through December 31, 2015

Board of Commissioners
Port District No. 1 of Douglas County
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 Port District No. 1 of Douglas County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated June 6, 2017. As discussed in Note 11 to the 2015 financial statements, the Port implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 2015-001 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 RESPONSE TO FINDINGS

The Port's response to the findings 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.

Pat McCarthy

State Auditor

Olympia, WA

June 6, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port District No. 1 of Douglas County
January 1, 2015 through December 31, 2015

Board of Commissioners
Port District No. 1 of Douglas County
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port District No. 1 of Douglas County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic 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 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port District No. 1 of Douglas County, as of December 31, 2015, 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.

Matters of Emphasis

As discussed in Note 11 to the 2015 financial statements, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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 24 through 28 and pension plan information on pages 53 through 54 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2017 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.

Pat McCarthy

State Auditor

Olympia, WA

June 6, 2017

FINANCIAL SECTION

Port District No. 1 of Douglas County
January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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 District No. 1 of Douglas County
January 1, 2013 through December 31, 2014

Board of Commissioners
Port District No. 1 of Douglas County
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 Port District No. 1 of Douglas County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated June 6, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 2015-001 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 RESPONSE TO FINDINGS

The Port's response to the findings 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.

Pat McCarthy

State Auditor

Olympia, WA

June 6, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port District No. 1 of Douglas County
January 1, 2013 through December 31, 2014

Board of Commissioners
Port District No. 1 of Douglas County
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port District No. 1 of Douglas County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 23.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port District No. 1 of Douglas County, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof, for the years 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 55 through 60 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2017 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.

Pat McCarthy

State Auditor

Olympia, WA

June 6, 2017

FINANCIAL SECTION

Port District No. 1 of Douglas County
January 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

The Port of Douglas County (Port) 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 Port's financial activity.
3. Identify changes in the Port's financial position.
4. Provide information on challenges in the next and subsequent years.
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 Port's financial statements.

Port Financial Statements

The Port's financial statements are designed to display the financial position and activity of the Port as a whole. The Port 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 industry 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 Port.

The focus of the Statement of Net Position is designed to present the net position available to the Port. Total net position is normally reported in three broad categories 'Invested in Capital Assets Net of Debt', 'Restricted' and 'Unrestricted'.

> Invested in Capital Assets Net of Related Debt. 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 of net position consists of all other net assets.

The Port's net position is reported in two categories; they do not have 'Restricted Assets'.

2. Statement of Revenues, Expenses and Changes in Net Position. This statement is similar to an income statement and includes; operating revenues, such as rental income and other tenant revenue; operating expenses, such as administrative expenses, utilities, maintenance and depreciation; and non-operating revenue and expenses, which includes property tax receipts, grant revenue, reimbursements, investment income and interest expense

3. Statement of Cash Flow. This statement shows net cash provided by, or used for operating activities, non-capital financing activities, capital activities and investing activities.

<u>Financial Analysis of the Port</u>

Douglas County assessed property values, for taxes received in 2015 increased slightly, from $3,889,175,219 to $4,057,765,492 indicating a modest upswing in property values. New construction values, which are incorporated into the assessed property values, increased from $50,126,796 in 2014 to $70,088,875 in 2015.

The Port of Douglas County exercised its option to select the 101% limit factor, applied to the 2014 tax levy amount, for the 2015 tax levy receipts. The actual tax levy amounts, for 2014 and 2015, were $825,404 and $859,926 respectively. These amounts also include the new construction valuation applied to the 101% limit factor. Of the total taxes distributed by Douglas County, the Port received 1.85% in 2014 and 1.87% in 2015.

In April 2013, a Memorandum of Understanding (MOU) was adopted by the Port of Douglas County and the Port of Chelan County, the owners of Pangborn Memorial Airport. A major element of the MOU was to redefine and establish an annual contribution cap for the Port of Douglas County, limiting the Port's contribution to the airport at 17% of its annual property tax receipts. The cap includes the Port's direct contributions to Pangborn Memorial Airport for purposes of regular operation & maintenance and capital expenditures, as well as payments accounting for 30% of the 10% local sponsor share of the Runway Extension Project. The cap is **not** inclusive of the rents the Port pays to the Airport as the lessee of the Pangborn Airport Business Park and the land on which the CWICC building sits, which are in addition to the contribution.

In 2012 the Port entered into a 5-year concessionaire agreement for the operation of Orondo River Park (ORP). A desired outcome of the agreement was to reduce, or negate the Port's annual operation and maintenance expense for the facility. At the request of the concessionaire, the agreement was mutually terminated in 2014. A new concessionaire agreement was entered into in April of 2015 between the Port and CAN Management, LLC which charges an annual rental rate of $15,000 for 2015 through

2019. Utilities and minor repairs are performed by the Concessionaire and potential major repairs are to be reviewed and negotiated as they may occur.

The Port continues to work with the Chelan County Public Utility District, co-owner of the Park, to evaluate the least-cost alternative for operating the park, long-term. The parties have both expressed an interest in resolving the long-term use issue to coincide with the end of the current concessionaire agreement.

With regard to the ownership and operation of the general aviation airports in Waterville and Mansfield, in 2014 the Port continued to seek ways to reduce its operation and maintenance expenses, including a reduction in insurance liability limits in 2013 The Port fully contracted for all maintenance services in 2014, and discontinued its in-house maintenance department. Discussions are on-going with regard to options for operating both facilities.

The Lease Revenue Refunding Bond 2013 was issued on April 18, 2013 in the amount of $985,000. It refunded the bond issued in 2003 to finance the construction of the CWICC Building. It will save approximately $290,000 in interest payments over the remaining 10 years of debt service on the bond.

The Port continues discussions with US Forest Service officials to correct the lease deficiency through a new lease agreement. An adjusted lease rate will correct the current deficit in lease income and will compensate the Port for actual operation and maintenance expenses for the facility. As a basis for renegotiating the lease, Port and US Forest Service representative held discussions in 2014 to determine a mutually approved schedule of maintenance obligations by the Port. Discussions are ongoing and a new/amended lease agreement to clarify lease adjustments moving forward for the remaining term of the lease is being reviewed.

In 2015, the Port completed two plans to guide the Port and provide guidance to the organization and staff. The first was the adoption of a Strategic Plan which outlined the four foundational goals on which decisions are measured and implemented. The major foundational goals are: Economic Prosperity for a High Quality of Life, Infrastructure for a Thriving Economy, Partnerships for a Competitive Region and Use of Real Estate for Financial Viability. This plan was followed by an update to the Port's Comprehensive Scheme of Harbor Improvements. During this process the Port identified several Industrial Development Districts (marginal lands that will need additional attention and investment) as well as strategic capital projects to improve the economic climate of the region and overall financial health of the Port.

During 2015, the Port was approached with the idea of purchasing a building, which they had previously sold several years prior, and then adding additional space on to the building. This project would allow the existing tenant to remain in Douglas County and retain 100 jobs as well as add an additional 25 jobs once the addition was completed. As of the end of 2015 the Port had successfully negotiated a purchase and sale agreement with the building owner and was in the midst of negotiating a long term lease with the current building tenant.

An Overview of the Port's Financial Position and Operations

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

Total Assets
The Port's total assets at December 31, 2015 were $18,600,000 an increase of $4,300,000 from the assets at December 31, 2014.
Total Liabilities

The Port's total liabilities at December 31, 2015 were $ 4,500,000 which is an increase of $400,000 from the liabilities at December 31, 2014.

Total Net Position

The Port's financial position increased $4,000,000.

TABLE 1
STATEMENT OF NET POSITION

	2015	2014
Current assets	$ 897,806	$ 881,729
Capital assets	5,140,476	5,521,985
Noncurrent assets and deferred outflows	12,559,546	7,869,253
Total Assets and deferred outflows	$18,597,828	14,272,967
Current liabilities	$ 871,269	501,443
Noncurrent liabilities and deferred inflows	3,622,929	3,593,987
Total Liabilities and deferred outflows	4,494,198	4,095,430
Invested in capital assets, net of related debt	1,547,485	1,674,099
Unrestricted net assets	12,556,145	8,503,438
Total Net Position	14,103,630	10,177,537
Total Liabilities, deferred inflows and net position	$18,597,828	14,272,967

TABLE 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2015	2014
Operating Revenues	$ 470,673	$ 456,448
Non-operating Revenues	5,432,839	3,737,941
Total Revenues	$ 5,903,512	$ 4,194,389
Operating Expenses	$ 1,377,174	$ 1,317,805
Non-operating Expenses	339,200	176,310
Total Expenses	$ 1,716,374	$ 1,494,115
Change in Net Position	$ 4,187,138	$ 2,700,274
Net Position – Beginning of Year	10,177,537	7,477,263
Adjust for prior year bond fees		
Adjust for prior year income		
Adjust for new accounting principle	(261,045)	
Net Position – End of Year	$14,103,630	$ 10,177,537

The majority of the operating revenues is from lease and rent revenue from the industrial park and airport leases. Non-operating revenues include revenue from property taxes and increase in value of the Port's 39% ownership equity of Pangborn Memorial Airport.

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

In preparation for the PMA Runway Extension Project, the Port of Chelan County and the Port of Douglas County issued LTGO Bonds, in the form of a revolving line of credit, to provide proceeds for their respective proportionate payments for the project costs. The Port of Douglas' bond was in an amount not to exceed $900,000. In 2015, the Port of Douglas drew bond proceeds in the amount of $363,417, an increase of approximately $309,961 over the draw in 2014. The principal balance on the Line of Credit due as of December 31, 2015 is $590,276.

Rental income, as of December 31, 2015, was $412,000 an increase of about $24,000 over the 2014 amount.

Regular tax levy receipts were about $ 860,000, an increase of about $ 30,000 over the 2014 amount.

The Port's debt service, principal amount due for 2015, was $255,000, which was about equal to 2014.

In 2015, the Port's contribution to Pangborn Memorial Airport was $135,880, or 17% of the annual tax receipts per the terms of the Memorandum of Understanding (MOU) executed in 2013 and noted in the Financial Analysis of the Port discussion. This contribution was inclusive of direct payments to PMA as well as payment of interest due on the Port of Douglas Line of Credit for the Runway Project Additionally, under the terms of the MOU, the Port agreed to pay $7,125 per year, from 2013 through 2016, for a total of $28,500. This amount is the Port's 30% share of the December 31, 2012 balance on a Line of Credit which the Port of Chelan had previously extended to Pangborn Memorial Airport.

Port of Douglas County
Attn: Lisa Parks
3306A 5th St. SE
East Wenatchee, WA 98802

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF NET POSITION
December 31, 2015

ASSETS AND DEFERRED OUTFLOWS

		2015
CURRENT ASSETS		
Cash Operating Fund	$	190,554
Cash and Cash Equivalents		606,936
Total Cash		797,490
Taxes Receivable		54,813
Accounts Receivable		45,503
TOTAL CURRENT ASSETS		897,806
NONCURRENT ASSETS		
Capital Assets		
Land		10,000
Orondo River Park		668,128
Mansfield Airport		128,302
Waterville Airport		835,576
Mansfield/Waterville Airport Runway Seal		82,157
Business Park - Phase I		1,075,602
Business Park - Phase II		2,080,522
Industrial Building		782,788
Equipment		64,522
Furniture and Fixtures		47,694
USFS Building		1,464,207
3310 Building		19,048
Sewer Capacity Addition		311,000
Water Line Extension		98,962
Sewer Line Extension		1,793,057
		9,461,565
Less Accumulated Depreciation		(4,321,089)
Total Capital Assets		5,140,476
Other Noncurrent Assets		
Investment in Pangborn Airport		12,437,536
Investment in Pangborn Airport Fueling Operation		28,500
Deferred Amount on bond refunding - New of Amortization		23,413
Bond Fee - Net of Amortization		10,897
Receivable - Port of Chelan		29,614
TOTAL OTHER NONCURRENT ASSETS		12,529,960
Deferred Outflows of Resources		
Pension		29,586
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	18,597,828

The accompanying notes are an integral part of these financial statements.

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

		2015
CURRENT LIABILITIES		
Accounts Payable	$	1,224
Interest Payable		18,832
Loan Payable - Cashmere Valley Bank		590,276
Current Portion of Long Term Debt		260,937
TOTAL CURRENT LIABILITES		871,269

NON CURRENT LIABILITIES		
Net Pension Liability	$	254,964
Loan Payable -Douglas County Sewer Dist, - Excess Capacity		48,518
Lease Revenue Bonds - USFS Financing		780,000
Loan Payable -Douglas County Sewer Dist. Grant Road Ext.		654,836
Loan Payable - Douglas County Sewer Dist. Pangborn Ext.		44,481
Limited Tax General Obligation and Refund Bonds Phase II		1,165,000
Loan Payable - CERB Phase II		893,031
Loan Payable - Port of Chelan Pangborn Fueling Operation		7,125
Less Current Portion		(260,937)
TOTAL NONCURRENT LIABILITIES		3,587,018
TOTAL LIABILITIES		4,458,287
DEFERRED INFLOWS OF RESOURCES		
Pension		35,911
NET POSITION		
Invested in capital assets, net of related debt		1,547,485
Unrestricted net assets		12,556,145
TOTAL NET POSITION		14,103,630
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$	18,597,828

The accompanying notes are an integral part of these financial statements.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Year Ending December 31, 2015

		2015
OPERATING REVENUES		
Douglas County ADO Designation	$	43,026
Orondo River Park		11,250
Airport Leases		3,711
Industrial Building Leases		100,651
Industrial Park Rent		312,035
TOTAL OPERATING REVENUES		470,673
OPERATING EXPENSES		
General Expenses		747,629
Orondo River Park		29,291
Airport Expenses		51,002
Industrial Building and Park Expenses		549,252
TOTAL OPERATING EXPENSES		1,377,174
OPERATING LOSS		(906,501)
NONOPERATING REVENUES		
Taxes Levied for Port		860,520
Interest Income		1,828
Grants		147,559
Sale of ERU		12,180
Shared Services		100
Douglas County - Payment for Public Works Trust Fund		80,000
Gain on Pangborn Airport		4,305,811
Sale of Equipment		12,582
Miscellaneous		12,259
TOTAL NONOPERATING REVENUES		5,432,839

The accompanying notes are an integral part of these financial statements.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Year Ending December 31, 2015

		2015
NONOPERATING EXPENSES		
Operating Payment to Pangborn Airport		137,246
Interest - PMA Bond Runway Extension		9,178
North End Planning Study		6,384
North End Master Site Plan		76,385
Port Strategic Plan		22,355
FIBRO Workshop		62,000
Rock Island Waterfront Redevelopment Project		17,215
Amortization of Bond Discount		1,477
Loss on Disposition of Assets		6,960
TOTAL NONOPERATING EXPENSES		339,200
NET NONOPERATING REVENUE		5,093,639
CHANGE IN NET POSITION		4,187,138
NET POSITION - BEGINNING OF YEAR AS ORIGINALLY REPORTED		10,177,537
ADJUSTMENT FOR RETROSPECTIVE APPLICATION OF NEW ACCOUNTING PRINCIPLE		(261,045)
NET POSITION - ENDING	$	14,103,630

The accompanying notes are an integral part of these financial statements.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF CASH FLOW
For the Year Ending December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 689,697	$ 160,380
Payments to suppliers	(817,856)	(617,354)
Payments to employees	(232,931)	(274,678)
Net cash used by operating activities	(361,090)	(731,652)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES		
Taxes levied for Port	821,903	797,615
Non operating revenue	88,026	117,472
Prior Year Income Received in 2013		70,289
Operating grants	74,846	217,702
Non operating payments	(171,656)	(240,646)
Net cash provided from non capital financing activities	813,119	962,432
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from loans and bonds	21,781	1,070,701
Payments on loans and bonds	(253,899)	(1,277,531)
Payment received - Port of Chelan receivable	3,871	3,663
Sale of equipment	3,556	
Acquisition of assets	(132,892)	(185,070)
Net cash used by capital and related financing activities	(357,583)	(388,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1,178	1,113
Net cash provided from investing activities	1,178	1,113
NET DECREASE IN CASH	95,624	(156,344)
CASH AT BEGINNING OFYEAR	710,212	866,556
CASH AT END OF YEAR	$ 805,836	$ 710,212

The accompanying notes are an integral part of these financial statements.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF CASH FLOW (continued)
For the Year Ending December 31, 2014 and 2013

RECONCILATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		2014		2013
Operating income		$ (861,357)		$ (736,013)
Noncash expense				
Depreciation and amortization				
Orondo River Park expenses	14,805		14,805	
General expenses	43,357		40,521	
Airport expenses	36,999		36,999	
Industrial Building and Park expenses	234,563		165,282	
Total depreciation		329,724		257,607
(Increase) decrease in operating assets				
Accounts receivable		233,249		(236,793)
Increase (decrease) in operating liabilities				
Accounts payable		(62,317)		(25,226)
Interest payable		(389)		8,773
		$ (361,090)		$ (731,652)

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Douglas County (Port) was established in 1958 and operates under the laws of the State of Washington applicable to port districts. The accounting and reporting policies of the Port conform to generally accepted accounting principles for local governments, except where noted. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below.

a. Reporting Entity

The Port is a special purpose government entity which promotes economic development to the general public within Douglas County and is supported primarily through tax revenues collected by the County. The Port also supports movement of cargo and persons in and out of the area through its ownership (full or partial) of Waterville, Mansfield and Pangborn Memorial Airports. It also created the Douglas County Development Corporation in 1982, which is authorized by the Washington State Legislature to facilitate the issuance of Tax exempt revenue bonds to finance industrial development projects within Douglas County.

The Port is governed by an elected three member board. The Port has one blended component unit. The Douglas County Development Corporation Board of Directors are the Port Commissioners.

b. Basis of Accounting and Presentation

The accounting records of the Port are maintained in accordance with generally accepted accounting principles as applied to proprietary funds by governmental units. The Governmental Accounting Standards Board is the accepted standard's setting body that establishes accounting standards for governmental units. Generally accepted accounting principles for proprietary funds are similar to those used to account for most business organizations.

The Port uses the accrual bases in 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 funds.

The Port adopted GASB 34 changes made to the BARS system, effective January 1, 2004. GASB 34 is primarily a change in how information is reported. All of the Port's underlying measurement standards remain unchanged from period to period.

The Port accounts for all business operation revenues and expenses as operating revenues and expenses. The Port's business operating revenues are derived from its property leasing and renting program. Operating expenses include the direct expenses of operating the leased and rented buildings and the general and administrative expenses of the Port as a whole,including the cost of executive management, administration, marketing, accounting, engineering, finance, legal, insurance, taxes paid, and direct and indirect costs of the Port Commission itself.

The Port accounts for all other revenue and expense as non-operating revenue or expense. Items included as non-operating revenue and expense are property and other tax receipts, investment income, grant revenues, special projects revenue and expense, operating payments Pangborn Memorial Airport, amortization of industrial plan and amortization of bond finance costs.

c. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

   It is the Port policy to invest all temporary cash surpluses. At December 31, 2015 the Douglas County Treasurer was holding $606,937 in short term investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents.

   For the purposes of the statement of Cash Flows, the Port considers all highly liquid investments (including restricted assets, if any) with a maturity of three months or less when purchased to be cash equivalents.

2. Temporary Investments – (see Note 2)

3. Receivables

   Taxes receivable consists of property taxes and related interest and penalties (see Note 3).

   Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Management believes all amounts to be collectible.

   During 2015 there was no account receivable from rent that was determined to be uncollectible. The accounts receivable at the beginning of the year and the accounts receivable at the end of the year are and were determined to be collectible. If bad debt expense had been accounted for in accordance with generally accepted accounting principles the amount recorded as bad debt expense would not be materially different than the direct write off method used by the Port.

4. Inventories

   Inventories consist of expendable supplies held for consumption. The cost is recorded as an expense at the time individual items are purchased, which is a departure from generally accepted accounting principles. The amounts are not material to the financial statements.

5. Capital Assets and Depreciation – (see Note 4)

6. Compensated Absences

   The Port adopted a Personal Leave Policy effective January 1, 2007, which superseded the Attendance and Leave Policy of August 17, 1998.

Compensated absences are absences for which employees will be paid. The Port recognizes personal leave benefits only when paid; although this practice does not conform to generally accepted accounting principles. But it is not material.

Personal leave may be accumulated up to 1,350 hours. Any hours above this limit shall be paid out at the end of the year. Employees may buy out unused personal leave from past year's accumulation at a rate equal to one hour's monetary compensation for each hour of accrued personal leave. Personal leave buy out can only occur for accrued time between 80 and 1,350 hours.

Upon termination of employment due to retirement, voluntary departure, layoffs, or death; an employee or an employee's estate may receive remuneration for unused paid leave at a rate equal to one hour's monetary compensation for each hour of accrued personal leave. All personal leave paid will be reported as wages for tax purposes.

The unrecorded liability for unpaid personal leave benefits as of December 31, 2015 was approximately $27,863.

7. 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 amounts reported in financial statements and footnotes thereto. Actual results may differ from those estimates.

8. Advertising Expenses

The Port expenses advertising costs as incurred. No direct response advertising is conducted; therefore, no advertising costs have been capitalized. Advertising expense for 2015 and was $63,531.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from, those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – DEPOSITS AND INVESTMENTS

As required by state law, deposits and investments of the Port funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions. The county is the treasurer for the Port and is responsible for the Port's investments.

The financial statements of Douglas County outline the County Treasurer's policy on investments.

Investments are categorized to give an indication of the risk assumed at year end. Category 1 includes investments that are insured, registered, or held by the Port or its agent in the Port's name. Category 1 includes uninsured and unregistered investments which are held by the brokers or dealers, trust department or agent in the Port's name.

All Port investments are Category 1 time deposits and are held by the County Treasurer.

Certificates of deposits are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All temporary investments are stated at cost plus accrued interest which approximates market. Other property and investments are shown on the balance sheet at cost, net of amortized premium or discount.

Management intends to hold the time deposits until maturity. Other property consists of real estate held for the production of rental income or for future use.

In accordance with generally accepted accounting principles applicable to regulated industries, reductions in market value are not reflected on the financial statements. Similarly, gains or losses on "bond swaps" are deferred and amortized over the life of the replacement investment.
Other gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

NOTE 3 – PROPERTY TAXES

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

Property Tax Calendar

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

Property taxes are recorded as receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. (State law allows for the sale of property for failure to pay taxes.)

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

The Port regular levy for 2015 was $0.211921 on an assessed valuation of $4,057,765,492 for a total regular levy of $859,926.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenditures 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 (or estimated historical cost, where historical cost is not known or estimated market value for donated assets).

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

In the case of the sale of a significant operating unit or system original cost is removed from the Port asset account, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

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 10 to 20 years.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed.

Development of the Industrial area portion of the airport began in 1997. The cost of developing the industrial area was amortized over a ten year period.

The Port has not adopted a policy for capitalization threshold. Assets that have a life of more than one year are capitalized.

Capital asset activity for the year ended December 31, 2015 was as follows:

	Begin. Bal. 01/01/15	Increase	Decrease	End. Bal. 12/31/15
Capital Assets not being depreciated:				
Land	$ 18,458			$ 18,458
Sewer Capacity Addition	311,000			311,000
Total Capital Assets, not being depreciated	$ 329,458			$ 329,458
Capital Assets, being depreciated:				
Building	$ 2,761,548	21,062		$ 2,782,610
Improvements	6,426,104		188,824	6,237,280
Equipment	200,747		88,530	112,217
Total Capital Assets, being depreciated	$ 9,388,399	21,062	277,354	$ 9,132,107
Less Accumulated Depreciation for:				
Building	$ 1,282,407	89,605		$ 1,372,012
Improvements	2,756,594	97,600		2,854,194
Equipment	156,871		61,988	94,883
Total Accumulated Depreciation	$ 4,195,872	187,205	61,988	$ 4,321,089
Total Capital Assets, depreciated-net	$ 5,192,527	(166,143)	215,366	$ 4,811,018
Total Capital Assets	$ 5,521,985	(166,143)	215,366	$ 5,140,476

NOTE 5 – PANGBORN AIRPORT

The airport is jointly owned by the Port of Chelan and the Port of Douglas. The joint operating agreement was drafted in 2003 and became effective January 1, 2004. The agreement states that the Port of Chelan holds an undivided 61% interest and the Port of Douglas holds an undivided 39% interest in the airport.

In January of 2013 the Port of Douglas and Port of Chelan entered into a Memorandum of Understanding for the purpose of documenting the common desire to negotiate an "Interlocal Agreement" defining their relationship regarding the operation and funding of Pangborn Memorial Airport and to delegate authority for decision making relative to the Runway Extension Project. The Memorandum of Understanding has several provisions relating to the operating and funding for Pangborn Memorial Airport. The Port of Douglas is to contribute 17% of its property taxes received (but not less than $135,880), manage the CWICC Building lease, the Pangborn Airport Business Park leases and will be responsible for 30% of the local sponsor share of the Runway Extension Project not to exceed $900,000. Any payment by the Port of Douglas of its share of the Runway Extension Project Financing shall be credited to the 17% of annual property tax contribution. A component of the Runway Extension Project

Financing provides for separate revolving lines of credit, requiring interest only payments until project completion, for each port district's local sponsor share of the FAA funded project. The balance at December 31, 2015was $590,276.

Included in the Memorandum of Understanding is a loan payable in the amount of $28,500 to the Port of Chelan for a line of credit to Pangborn Memorial Airport for the fixed based fueling operations, which is payable in 4 equal annual installments of $7,125 commencing April 1,
2013. If Pangborn Memorial Airport terminates the fixed based fueling operation, the Port of Douglas will be reimbursed for this loan payment.

There was an increase in value for 2015 of $4,669,228.

NOTE 6 – LONG TERM DEBT

The balance sheet contains a list of outstanding debt at December 31, 2015. The annual requirements to amortize all debts outstanding as of December 31, 2015 are as follows:

I. Loan Payable - Douglas County Sewer District
$273,262.60 at 4.426% interest per annum, payments of $26,690 annually including interest to 2017. Principal outstanding December 31, 2015 was $48,518.

II. Lease Revenue Bonds - United States Forest Service
$985,000 at 2.6% to 4% per annum, payments vary over the remaining ten years with a maturity on July 1, 2023. Principal payment of $90,000 was made July 1. Principal outstanding at December 31, 2015 is $780,000.

III. Loan Payable - Douglas County Sewer District Grant Road Sewer Extension
This loan is from the State Public Works Trust Fund through Douglas County Sewer District. The repayment of the loan began in 2005 with principal payments $81,854.47 per year plus interest at .05% per year, balance is due in 2023. The Port of Douglas has entered into an inter local agreement with Douglas County and Douglas County Sewer District, whereas the County will allocate and contribute 80% of the second .04% Rural Counties Sales and Use Tax received from

the Washington State Department of Revenue pursuant to RCW 82.14.370 to a maximum of $80,000 per year to the District towards repayment of the State Public Works Trust Fund loan. The Port of Chelan has agreed to reimburse the Port of Douglas for 38.44% of the principal and interest payments. There is no provision in these statements for a receivable for future reimbursements from Port of Chelan. Principal outstanding at December 31, 2015 is $654,836.

IV. Loan Payable - Douglas County Sewer District Pangborn Industrial Area Sewer Extension

This loan is from the State Public Works Trust Fund through Douglas County Sewer District. The repayment of the loan began in 2005 with principal payments of $7,413.52 per year, plus interest at .05% per year, balance is due in 2021. The Port of Chelan has agreed to reimburse the Port of Douglas for 38.44% of the principal and interest payments. There is no provision in these statements for a receivable for future reimbursements from Port of Chelan. Principal outstanding at December 2015 is $44,481.

V. Limited Tax General Obligation and Refund Bonds - Phase II

Bonds issued for Business Park Phase II construction and refunding the General Obligation Bonds for Industrial Development. $1,345,000 in 2011 at 1.3% to 5 % interest with payments from $45,000 to $150,000 per year plus interest maturing in 2031. Principal outstanding at December 31, 2015 is $1,165,000.

VI. Loan Payable - Washington State Community Economic Revitalization Board for Industrial Infrastructure Pangborn Airport Business Park.

The total amount of the loan as of December 31, 2015 was $893,031. Payment terms 20 years, interest rate of 2.5%. Principal and interest are deferred for the first five years, then, principal and interest payments will be made over the next fifteen years.

VII. Loan Payable - Port of Chelan - Pangborn Airport Fueling Operation.

The Port of Chelan extended a line of credit to Pangborn Memorial Airport, which had a balance of $95,000 as of December 31, 2013. The Port of Douglas is responsible for 30% of this balance or $28,500. Annual payments of $7,125 are to be over a four year beginning April 1, 2013 to the Port of Chelan. Principal outstanding as of December 31, 2015 is $7,125. There is no interest due on the loan.

SCHEDULE OF CHANGES

	Begin Bal. 1/01/15	Additions	Reductions	End Bal. 12/31/15	Amt. Due Within 1Yr
Loan I	$ 72,020	$	$ 23,502	$ 48,518	$ 24,544
Bond II	870,000		90,000	780,000	90,000
Loan III	736,690		81,854	654,836	81,854
Loan IV	51,895		7,414	44,481	7,414
Bond V	1,210,000		45,000	1,165,000	50,000
Loan VI	893,031			893,031	-0-
Loan VII	14,250		7,125	7,125	7,125
Total	$ 3,847,886		$ 254,895	$ 3,592,991	260,937

SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS

Year		Principal		Interest
2016		260,937		82,829
2017		243,243		78,346
2018		232,898		97,791
2019		239,239		93,644
2020		255,613		89,506
2021-2025		1,146,552		357,007
2026-2030		983,467		180,485
2031-2032		231,042		13,137
Total	$	3,592,991	$	992,745

There are a number of other limitations and restrictions contained in the loan contracts. The Port is in compliance with all significant limitations and restrictions.

NOTE 7 – LEASES

a, Operating Leases

In addition to the 2.33 acre CWICC facility lease, the Port is developer and manager of the 70-acre Pangborn Airport Business Park (PABP). The lease payment to PMA for the business park is dependent on each parcel that is leased by the Port. The Port has four leases with original terms of one lease for twenty years and three leases for fifty years. The leases contain options to renew with varying option periods. The cost for such leases was $28,406 which, when combined with the $5,892 land lease payment for the CWICC property, made a total lease payment to PMA of $34,398 for the year ended December 31, 2015. The future minimum lease payments are as follows:

2016	34,297
2017	34,297
2018	34,297
2019	34,297
2020	34,297
2021 – 2025	159,701
2026 – 2030	142,025
2031 – 2035	142,025
2036 – 2040	142,025
2041 – 2045	142,025
Total	899,286

b. Capital Leases

The Port has no capital leases as of December 31, 2015.

c. Long Term Lease Receivable

The Port annually receives $157,488 in lease revenue from the CWICC facility (eight years remaining) and $154,549 in lease revenue associated with the leases described above as part of the PABP (thirty-four to thirty-six years remaining). Additionally, within the Port's building at the PABP, there are five existing tenants, Commercial Millwork; North Central Washington Educational Service District; Bad Apple Jacked Cider Inc.; Bitfund Ltd and Central Washington Motorcycle Training that are currently on year-to-year lease agreements that resulted in a total of $58,528 in lease revenue for the year ending December 31, 2015. The Port is also the owner and manager of Waterville Airport and Mansfield Airport property (from monthly leases to twenty years remaining).

Minimum future rents on non-cancelable leases are as follows including Accor Technology Inc (see footnote number 10):

2016	541,397
2017	602,112
2018	607,068
2019	612,108
2020	617,220
Total	$2,979,905

NOTE 8 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68. Accounting and Financial Reporting for pensions for the year 2015:

Pension liabilities	$ 254,964
Pension assets	-
Deferred outflows of resources	29,586
Deferred inflows of resources	35,911
Pension expense	26,933

State Sponsored Pension Plans

Substantially all the Port's 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts'; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits**.** Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of labor and industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State Statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* for employees participating in JBM, the contribution rate was 12.26%

The Ports actual contributions to the plan were $ -0- for the year ended December 31, 2015

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is consider an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan2/3 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 three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit.

PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 retirement benefits include duty and non-duty disability payments, a cost-of living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statue, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

<u>Contributions</u>

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0/18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Actual Contribution Rates:	Employer2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The Ports actual contributions to the plan were $26,689 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (YPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of Jun 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (SOA) 2007-20012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward, to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grew by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projection the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher ins some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contributions rates, the OSA now uses the current blend of Plan 2 and Plan3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and on-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2013 Experience Study Report.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included as assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the table below. The inflation component used to create the table 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocations	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the Port\s's proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

***** See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension liabilities (Assets), Pension Expense, and Deferred Outflows of resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015 the Port reported a total pension liability of $ 254,964 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS Plan 1	$ 151,488
PERS Plans 2/3	103,476

At June 30, the Port's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS Plan 1	0.002771%	0.002896%	-0.000125%
PERS Plans 2/3	0.002771%	0.002896%	-0.000125%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except LEOFF1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015.

Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015 and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the Port recognized pension expense as follows:

	Pension Expense
PERS Plan 1	$ 13,271
PERS Plan 2/3	13,662

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015 the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 8,288
Changes of assumptions	$ -	
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	
Contributions subsequent to the measurement date	$ 6,243	-
TOTAL	$ 6,243	$ 8,288

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 11,000	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 27,623
Changes of assumptions	$ 167	
Changes in proportion and differences between contributions and proportionate share of contributions	$ 4,022	
Contributions subsequent to the measurement date	$ 8,154	
TOTAL	$ 23,343	$27,623

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year end December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Plan Name
2016	$ 1,183
2017	$ 1,183
2018	$ 1,183
2019	$ 473

NOTE 9 – RISK MANAGEMENT

The Port is a member of the 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, 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, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss.
- $250,000 on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is 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, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles.

Liability coverage limit is $10 million per occurrence and property coverage limit is $ 1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

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

NOTE 10 – RECEIVABLE - PORT OF CHELAN

In 2005 the Port entered into an agreement with the Port of Chelan to provide 38.4349% of the local match funds for the sewer line extension. It was determined at that time the portion for the Port of Chelan to be $70,315.19. An interlocal agreement was entered into with Port of Chelan providing annual payments of $3,870.50 including interest at 1/2%. The balance remaining to be received is $29,614.

NOTE 11 – RETROSPECTIVE APPLICATION OF NEW ACCOUNTING PRINCIPLE

In 2015 the Port adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability in their financial statements. The financial statements have been retroactively restated for the change, which resulted in a decrease in the net position of $261,045. Net position at the beginning of the year has been adjusted for the retroactive application of the new standard.

NOTE 12 – CHELAN-DOUGLAS TRANSPORTATION COUNCIL

In 2015 the Port approved an interlocal cooperation agreement establishing the Chelan-Douglas Transportation Council as the “Metropolitan Planning Organization” and “Regional Transportation Planning Organization for the two county area of Chelan and Douglas Counties.

The interlocal cooperation agreement is made by and among Chelan County, Douglas County, City of Bridgeport, City of Cashmere, City of Chelan, city of East Wenatchee, city of Entiat, City of Leavenworth, City of Rock Island, City Wenatchee, Town of Mansfield, Town of Waterville, Port of Douglas County, Port of Chelan County, Chelan-Douglas Public Transit Benefit Area (Link) and the Washington State Department of Transportation (WSDOT).

Dues to cover expenses shall be assessed to the members based on the bylaws of the Chelan-Douglas Transportation Council.

NOTE 13 – SUBSEQUENT EVENTS

In April 2016 the Port purchased the 3310 building at 5th Street SE at the Pangborn Airport Business Park and signed a lease with Accor Technology Inc. The Port issued Long Term General Obligation bonds for $4,000,000 for the purpose of financing the costs of purchasing, expanding and improving the 3310 building.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
SUPPLEMENTAL SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For The Year ending December 31, 2015

PERS Plan 1

Employer's proportion of the net pension liability		0.002896%
Employer's proportionate share of the net pension liability	$	151,488.00
TOTAL		151,488.00
Employer's covered employee payroll	$	256,965.00
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll		58.95%
Plan fiduciary net position as a percentage of the total pension liability		59.10%

PERS Plans 2/3

Employer's proportion of the net pension liability		0.002896%
Employer's proportionate share of the net pension liability	$	103,476
TOTAL		103,476
Employer's covered employee payroll	$	256,965
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll		40.27%
Plan fiduciary net position as a percentage of the total pension liability		89.20%

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
SUPPLEMENTAL SCHEDULE OF CONTRIBUTION
For The Year ending December 31, 2015

PERS PLAN 1

Statutorily required contributions	$	6,243
Contributions in relation to the statutorily required contribtuions		(6,243)
Contribution deficiency (excess)	$	-
Covered employer payroll	$	256,965
Contributions as a percentage of covered employer payroll		2.43%

PERS PLAN 2

Statutorily required contributions	$	8,154
Contributions in relation to the statutorily required contribtuions		(8,154)
Contribution deficiency (excess)	$	-
Covered employer payroll	$	256,965
Contributions as a percentage of covered employer payroll		3.17%

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013

Port of Douglas County (Port) 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 Port's financial activity.
3. Identify changes in the Port's financial position.
4. Provide information on challenges in the next and subsequent years.
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 Port's financial statements.

Port Financial Statements

The Port's financial statements are designed so that all activities for the Port are reported as one total for the entire Port. They are designed to display the financial position and activity of the Port as a whole. The Port 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 industry 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 Port.

The focus of the Statement of Net Position is designed to present the net position available to the Port. Total net position is normally reported in three broad categories 'Invested in Capital Assets Net of Debt', 'Restricted' and 'Unrestricted'.

> Invested in Capital Assets Net of Related Debt. 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 of net position consists of all other net assets.

The Port's net position is reported in two categories; they do not have 'Restricted Assets'.

2. Statement of Revenues, Expenses and Changes in Net Position. This statement is similar to an income statement and includes; operating revenues, such as rental income and other tenant revenue; operating expenses, such as administrative expenses, utilities, maintenance and depreciation; and non-operating revenue and expenses, which includes property tax receipts, grant revenue, reimbursements, investment income and interest expense

3. Statement of Cash Flow. This statement shows net cash provided by, or used for operating activities, non-capital financing activities, capital activities and investing activities.

<u>Financial Analysis of the Port</u>

Douglas County assessed property values, for taxes received in 2013 and 2014, increased slightly, from $3,690,130,355 to $3,889,175,219 indicating a modest upswing in property values. New construction values, which are incorporated into the assessed property values, although having decreased from $76,933,700 in 2013 to $50,126,796 in 2014, indicate continuing moderate construction activity in the County.

The Port of Douglas County exercised its option to select the 101% limit factor, applied to the 2013 tax levy amount, for the 2014 tax levy receipts. The actual tax levy amounts, for 2013 and 2014, were $799,331 and $825,404 respectively. These amounts also include the new construction valuation applied to the 101% limit factor. Of the total taxes distributed by Douglas County, the Port received 1.80% in 2013 and 1.85% in 2014.

In 2014, the Port continued to examine ways to stabilize or reduce expenditures, and increase revenues, at various cost centers including Pangborn Memorial Airport, Orondo River Park, Waterville and Mansfield Airports and the CWICC Building.

In April 2013, a Memorandum of Understanding (MOU) was adopted by the Port of Douglas County and Port of Chelan County, the owners of Pangborn Memorial Airport . A major element of the MOU was to redefine and establish an annual contribution cap for the Port of Douglas County, limiting the Port's contribution to the airport at 17% of its annual property tax receipts. The cap includes the Port's direct contributions to Pangborn Memorial Airport for purposes of regular operation & maintenance and capital expenditures, as well as payments accounting for 30% of the 10% local sponsor share of the Runway Extension Project.

In 2012 the Port entered into a 5-year concessionaire agreement for the operation of Orondo River Park (ORP). A desired outcome of the agreement was to reduce, or negate the Port's annual operation and maintenance expense for the facility. At the request of the concessionaire, the agreement was mutually terminated in 2014. A new concessionaire agreement is contemplated for 2015 which will be structured to provide a higher level of revenue to the Port.

A Comprehensive Plan for ORP was finalized and approved in 2014. The plan identifies capital improvement projects and state funding sources to finance those projects.

With regard to the ownership and operation of the general aviation airports in Waterville and Mansfield, in 2014 the Port continued to seek ways to reduce its operation and maintenance expenses, including a reduction in insurance liability limits in 2013 The Port fully contracted for all maintenance services in 2014, and discontinued its in-house maintenance department. Discussions are on-going with regard to options for operating both facilities.

The Lease Revenue Refunding Bond 2013 was issued on April 18, 2013 in the amount of $985,000. It refunded the bond issued in 2003 to finance the construction of the CWICC Building. It will save approximately $290,000 in interest payments over the remaining 10 years of debt service on the bond.

The Port continues discussions with US Forest Service officials to correct the lease deficiency through a new lease agreement. An adjusted lease rate will correct the current deficit in lease income and will compensate the Port for actual operation and maintenance expenses for the facility. As a basis for renegotiating the lease, Port and US Forest Service representative held discussions in 2014 to determine a mutually approved schedule of maintenance obligations by the Port. Discussions are ongoing and are anticipated to result in a new/amended lease agreement to clarify lease adjustments both from prior years and in moving forward for the remaining term of the lease.

In 2014, a continued focus of the Port was to adhere to the financial policies adopted in 2011 to reduce expenses and increase revenues for the Port's cost centers, limit the amount of long-term debt and improve the level of the Port's reserve accounts.

<u>An Overview of the Port's Financial Position and Operations</u>

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

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013

Total Assets

The Port's total assets at December 31, 2014 were $14.2 million an increase of $2.5 million from the assets at December 31, 2013.

Total Liabilities

The Port's total liabilities at December 31, 2014 were $4.1 million which is a decrease of $200,000 from the liabilities at December 31, 2013.

Total Net Position

The Port's financial position increased $2.7 million.

TABLE 1
STATEMENT OF NET POSITION

	2014	2013	2012
Current assets	881,729	1,132,383	933,101
Capital assets	5,521,985	5,719,028	5,791,564
Noncurrent assets	7,869,253	4,908,592	4,274,546
Total Assets	14,272,967	11,760,003	10,999,211
Current liabilities	501,443	456,635	293,386
Noncurrent liabilities	3,593,987	3,826,105	4,016,887
Total Liabilities	4,095,430	4,282,740	4,310,273
Invested in capital assets, net of related debt	1,674,099	1,639,024	1,581,784
Unrestricted net assets	8,503,438	5,838,239	5,107,154
Total Net Position	10,177,537	7,477,263	6,688,938
Total Liabilities and Net Position	14,272,967	11,760,003	10,999,211

TABLE 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2014	2013	2012
Operating Revenues	$ 456,448	$ 397,173	$ 422,297
Non-operating Revenues	3,737,941	1,784,358	1,067,436
Total Revenues	$ 4,194,389	$ 2,181,531	$1,489,733

Operating Expenses	$ 1,317,805	$ 1,133,186	$1,198,482
Non-operating Expenses	176,310	274,086	303,868
Total Expenses	$ 1, 494,115	$ 1,407,272	$1,502,350
Change in Net Position	$ 2,700,274	$ 774,259	$ (12,617)
Net Position – Beginning of Year	7,477,263	6,688,938	6,701,555
Adjustment for prior bond fees write off		(56,223)	-
Adjustment for Prior Year Income	-	70,289	-
Net Position – End of Year	$ 10,177,537	$ 7,477,263	$6,688,938

The majority of the operating revenues is from lease and rent revenue from the industrial park and airport leases. Non-operating revenues include revenue from property taxes and increase in value of the Port's 39% ownership equity of Pangborn Memorial Airport.

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

In preparation for the PMA Runway Extension Project, the Port of Chelan County and the Port of Douglas County issued LTGO Bonds, in the form of a revolving line of credit, to provide proceeds for their respective proportionate payments for the project costs. The Port of Douglas' bond was in an amount not to exceed $900,000. In 2014, the Port of Douglas drew bond proceeds in the amount of $673,378, an increase of approximately $400,000 over the draw in 2013. The Port also received income, in the amount of $447,169, in the form of FAA grant proceeds as reimbursement for the PMA Runway Extension Project. The principal balance on the Line of Credit due as of December 31, 2014 is $226,210.

Rental income, as of December 31, 2014, was $314,000, an increase of about $20,000 over the 2013 amount.

Regular tax levy receipts were about $822,000, an increase of about $24,000 from 2013.

The Port's debt service, principal amount due for 2014, was $246,774, which was about $40,000 less than that of 2013, primarily due to the Water District ULID being paid off in 2013.

In 2014, the Port's contribution to Pangborn Memorial Airport was $135,880, or 17% of the annual tax receipts per the terms of the Memorandum of Understanding (MOU) executed in 2013 and noted in the Financial Analysis of the Port discussion. This contribution was inclusive of direct payments to PMA as well as payment of interest due on the Port of Douglas Line of Credit for the Runway Project. This was a reduction of $151,861 from the 2012 contribution amount. Additionally, under the terms of the MOU, the Port agreed to pay $7,125 per year, from 2013 through 2016, for a total of $28,500.

This amount is the Port's 30% share of the December 31, 2012 balance on a Line of Credit which the Port of Chelan had previously extended to Pangborn Memorial Airport.

To date, the Port is awaiting the expense line item identifying the gain on Pangborn Memorial Airport. This line item is a significant factor which credits the total expense for the airport operation and modifies the Statement of Revenue, Expenses and Changes in Net Position

Port of Douglas County
Attn: Lisa Parks
3306A 5th St. SE
East Wenatchee, WA 98802

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF NET POSITION
December 31, 2014 and 2013

ASSETS

		2014		2013
CURRENT ASSETS				
Cash Operating Fund	$	170,116	$	103,134
Cash and Cash Equivalents		635,720		607,078
Total Cash		805,836		710,212
Pangborn Memorial Airport Receivable - Runway Extension		-		118,696
Taxes Receivable		54,137		48,470
Accounts Receivable		21,756		255,005
TOTAL CURRENT ASSETS		881,729		1,132,383
NONCURRENT ASSETS				
Capital Assets				
Land		10,000		10,000
Orondo River Park		694,303		694,303
Mansfield Airport		128,302		128,302
Waterville Airport		835,576		835,576
Mansfield/Waterville Airport Runway Seal		82,157		82,157
Business Park - Phase I		1,075,603		1,075,603
Business Park - Phase II		2,080,522		1,991,239
Industrial Building		945,436		945,436
Equipment		127,218		154,609
Furniture and Fixtures		73,528		75,433
USFS Building		1,462,193		1,418,584
Sewer Capacity Addition		311,000		311,000
Water Line Extension		98,962		98,962
Sewer Line Extension		1,793,057		1,793,057
		9,717,857		9,614,261
Less Accumulated Depreciation		(4,195,872)		(3,895,233)
Total Capital Assets		5,521,985		5,719,028
Other Noncurrent Assets				
Investment in Pangborn Airport		7,768,308		4,799,123
Investment in Pangborn Airport Fueling Operation		28,500		28,500
Deferred Amount on Bond Refunding - Net of Amortization		26,587		29,762
Discount on Bond Refunding - Net of Amortization		12,374		13,852
Receivable - Port of Chelan		33,484		37,355
TOTAL OTHER NONCURRENT ASSETS		7,869,253		4,908,592
TOTAL ASSETS	$	14,272,967	$	11,760,003

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET POSITION

		2014		2013
CURRENT LIABILITIES				
Accounts Payable	$	-	$	62,317
Interest Payable		21,334		21,723
Loan Payable - Cashmere Valley Bank		226,210		118,696
Current Portion of Long Term Debt		253,899		253,899
TOTAL CURRENT LIABILITES		501,443		456,635
NON CURRENT LIABILITIES				
Loan Payable -Douglas County Sewer Dist, - Excess Capacity		72,020		94,526
Lease Revenue Bonds -USFS Financing		870,000		960,000
Loan Payable -Douglas County Sewer Dist. Grant Road Ext.		736,690		818,545
Loan Payable - Douglas County Sewer Dist. Pangborn Ext.		51,895		59,308
Limited Tax General Obligation and Refund Bonds Phase II		1,210,000		1,255,000
Loan Payable - CERB Phase II		893,031		871,250
Loan Payable -Port of Chelan Pangborn Fueling Operation		14,250		21,375
Less Current Portion		(253,899)		(253,899)
TOTAL NONCURRENT LIABILITIES		3,593,987		3,826,105
TOTAL LIABILITIES		4,095,430		4,282,740
NET POSITION				
Invested in capital assets, net of related debt		1,674,099		1,639,024
Unrestricted net assets		8,503,438		5,838,239
TOTAL NET POSITION		10,177,537		7,477,263
TOTAL LIABILITIES AND NET POSITION	$	14,272,967	$	11,760,003

The accompanying notes are an integral part of these financial statements.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Year Ending December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Douglas County ADO Designation	$ 50,260	$ 37,062
Orondo River Park	3,517	3,352
Airport Leases	3,207	3,326
Industrial Building Leases	85,209	59,431
Industrial Park Rent	314,255	294,002
TOTAL OPERATING REVENUES	456,448	397,173
OPERATING EXPENSES		
General Expenses	685,621	564,951
Orondo River Park	47,304	30,190
Airport Expenses	52,684	54,345
Industrial Building and Park Expenses	532,196	483,700
TOTAL OPERATING EXPENSES	1,317,805	1,133,186
OPERATING LOSS	(861,357)	(736,013)
NONOPERATING REVENUES		
Taxes Levied for Port	827,570	797,753
Interest Income	1,178	1,113
Grants	74,846	217,702
Union Street Funding Assistance - Douglas County	-	25,000
Shared Services	300	2,405
Funding Assistance Orondo River Park - Chelan County PUD	-	10,000
Douglas County - Payment for Public Works Trust Fund	80,000	80,000
Gain on Pangborn Airport	2,742,975	650,318
Sale of Equipment	3,345	-
Miscellaneous	7,727	67
TOTAL NONOPERATING REVENUES	3,737,941	1,784,358
NONOPERATING EXPENSES		
Operating Payment to Pangborn Airport	133,189	135,926
Interest - PMA Bond Runway Extension	6,940	7,500
North End Planning Study	13,947	63,148
Port Strategic Plan	14,953	-
Cross Dock Feasibilty Study	-	59,125
Rock Island Waterfront Redevelopment Project	5,803	3,464
Amortization of Bond Discount	1,478	923
Mansfield Museum Donation	-	4,000
TOTAL NONOPERATING EXPENSES	176,310	274,086
NET NONOPERATING REVENUE	3,561,631	1,510,272
CHANGE IN NET POSITION	2,700,274	774,259
NET POSITION - BEGINNING	7,477,263	6,688,938
ADJUSTMENT FOR WRITE OFF OR PRIOR BOND FEES		(56,223)
ADJUSTMENT FOR PRIOR YEAR INCOME		70,289
NET POSITION - ENDING	$ 10,177,537	$ 7,477,263

The accompanying notes are an integral part of these financial statements.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF CASH FLOW
For the Year Ending December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 689,697	$ 160,380
Payments to suppliers	(817,856)	(617,354)
Payments to employees	(232,931)	(274,678)
Net cash used by operating activities	(361,090)	(731,652)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES		
Taxes levied for Port	821,903	797,615
Non operating revenue	88,026	117,472
Prior Year Income Received in 2013		70,289
Operating grants	74,846	217,702
Non operating payments	(171,656)	(240,646)
Net cash provided from non capital financing activities	813,119	962,432
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from loans and bonds	21,781	1,070,701
Payments on loans and bonds	(253,899)	(1,277,531)
Payment received - Port of Chelan receivable	3,871	3,663
Sale of equipment	3,556	
Acquisition of assets	(132,892)	(185,070)
Net cash used by capital and related financing activities	(357,583)	(388,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1,178	1,113
Net cash provided from investing activities	1,178	1,113
NET DECREASE IN CASH	95,624	(156,344)
CASH AT BEGINNING OFYEAR	710,212	866,556
CASH AT END OF YEAR	$ 805,836	$ 710,212

The accompanying notes are an integral part of these financial statements.

PORT OF DOUGLAS COUNTY
DOUGLAS COUNTY WASHINGTON
STATEMENT OF CASH FLOW (continued)
For the Year Ending December 31, 2014 and 2013

RECONCILATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		2014		2013
Operating income		$ (861,357)		$ (736,013)
Noncash expense				
Depreciation and amortization				
Orondo River Park expenses	14,805		14,805	
General expenses	43,357		40,521	
Airport expenses	36,999		36,999	
Industrial Building and Park expenses	234,563		165,282	
Total depreciation		329,724		257,607
(Increase) decrease in operating assets				
Accounts receivable		233,249		(236,793)
Increase (decrease) in operating liabilities				
Accounts payable		(62,317)		(25,226)
Interest payable		(389)		8,773
		$ (361,090)		$ (731,652)

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Douglas County (Port) was established in 1958 and operates under the laws of the State of Washington applicable to port districts. The accounting and reporting policies of the Port conform to generally accepted accounting principles for local governments, except where noted. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below.

a. Reporting Entity

The Port is a special purpose government entity which promotes economic development to the general public within Douglas County and is supported primarily through tax revenues collected by the County. The Port also supports movement of cargo and persons in and out of the area through its ownership (full or partial) of Waterville, Mansfield and Pangborn Memorial Airports. It also created the Douglas County Development Corporation in 1982, which is authorized by the Washington State Legislature to facilitate the issuance of Tax exempt revenue bonds to finance industrial development projects within Douglas County.

The Port is governed by an elected three member board. The Port has one blended component unit. The Douglas County Development Corporation Board of Directors are the Port Commissioners.

b. Basis of Accounting and Presentation

The accounting records of the Port are maintained in accordance with generally accepted accounting principles as applied to proprietary funds by governmental units. The Governmental Accounting Standards Board is the accepted standard's setting body that establishes accounting standards for governmental units. Generally accepted accounting principles for proprietary funds are similar to those used to account for most business organizations.

The Port uses the accrual bases in 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 funds.

The Port adopted GASB 34 changes made to the BARS system, effective January 1, 2004. GASB 34 is primarily a change in how information is reported. All of the Port's underlying measurement standards remain unchanged from period to period.

The Port accounts for all business operation revenues and expenses as operating revenues and expenses. The Port's business operating revenues are derived from its property leasing and renting program. Operating expenses include the direct expenses of operating the leased and rented buildings and the general and administrative expenses of the Port as a whole, including the cost of executive management, administration, marketing, accounting, engineering, finance, legal, insurance, taxes paid, and direct and indirect costs of the Port Commission itself.

The Port accounts for all other revenue and expense as non-operating revenue or expense. Items included as non-operating revenue and expense are property and other tax receipts, investment income, grant revenues, special projects revenue and expense, operating payments to Pangborn Memorial Airport, amortization of industrial plan and amortization of bond finance costs.

c. <u>Assets, Liabilities and Equities</u>

1. Cash and Cash Equivalents

    It is the Port policy to invest all temporary cash surpluses. At December 31, 2014 and 2013 the Douglas County Treasurer was holding $635,720 and $607,078 in short term investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents.

    For the purposes of the statement of Cash Flows, the Port considers all highly liquid investments (including restricted assets, if any) with a maturity of three months or less when purchased to be cash equivalents.

2. Temporary Investments – (see Note 2)

3. Receivables

    Taxes receivable consists of property taxes and related interest and penalties (see Note 3).

    Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Management believes all amounts to be collectible.

    During 2014 and 2013 there was no account receivable from rent that was determined to be uncollectible. The accounts receivable at the beginning of the year and the accounts receivable at the end of the year are and were determined to be collectible. If bad debt expense had been accounted for in accordance with generally accepted accounting principles the amount recorded as bad debt expense would not be materially different than the direct write off method used by the Port.

4. Inventories

    Inventories consist of expendable supplies held for consumption. The cost is recorded as an expense at the time individual items are purchased, which is a departure from generally accepted accounting principles. The amounts are not material to the financial statements.

5. Capital Assets and Depreciation – (see Note 4)

6. Compensated Absences

    The Port adopted a Personal Leave Policy effective January 1, 2007, which superseded the Attendance and Leave Policy of August 17, 1998.

Compensated absences are absences for which employees will be paid. The Port recognizes personal leave benefits only when paid; although this practice does not conform to generally accepted accounting principles. But it is not material.

Personal leave may be accumulated up to 1,350 hours. Any hours above this limit shall be paid out at the end of the year. Employees may buy out unused personal leave from past year's accumulation at a rate equal to one hour's monetary compensation for each hour of accrued personal leave. Personal leave buy out can only occur for accrued time between 80 and 1,350 hours.

Upon termination of employment due to retirement, voluntary departure, layoffs, or death; an employee or an employee's estate may receive remuneration for unused paid leave at a rate equal to one hour's monetary compensation for each hour of accrued personal leave. All personal leave paid will be reported as wages for tax purposes.

The unrecorded liability for unpaid personal leave benefits as of December 31, 2014 was approximately $38,437. The unrecorded liability for unpaid personal leave benefits at December 31, 2013 was approximately $32,081.

7. 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 amounts reported in financial statements and footnotes thereto. Actual results may differ from those estimates.

8. Advertising Expenses

   The Port expenses advertising costs as incurred. No direct response advertising is conducted; therefore, no advertising costs have been capitalized. Advertising expense for 2014 and 2013 was $54,952 and $41,714.

NOTE 2 – DEPOSITS AND INVESTMENTS

As required by state law, deposits and investments of the Port funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions. The county is the treasurer for the Port and is responsible for the Port's investments.

The financial statements of Douglas County outline the County Treasurer's policy on investments.

Investments are categorized to give an indication of the risk assumed at year end. Category 1 includes investments that are insured, registered, or held by the Port or its agent in the Port's name. Category 1 includes uninsured and unregistered investments which are held by the brokers or dealers, trust department or agent in the Port's name.

All Port investments are Category 1 time deposits and are held by the County Treasurer.

Certificates of deposits are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All temporary investments are stated at cost plus accrued interest which approximates market. Other property and investments are shown on the balance sheet at cost, net of amortized premium or discount.

Management intends to hold the time deposits until maturity. Other property consists of real estate held for the production of rental income or for future use.

In accordance with generally accepted accounting principles applicable to regulated industries, reductions in market value are not reflected on the financial statements. Similarly, gains or losses on "bond swaps" are deferred and amortized over the life of the replacement investment.
Other gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

NOTE 3 – PROPERTY TAXES

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

Property Tax Calendar

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

Property taxes are recorded as receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. (State law allows for the sale of property for failure to pay taxes.)

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

The Port regular levy for 2014 and 2013 was $0.212231 and $0.216613 on an assessed valuation of $3,889,175,219 and $3,690,130,355 for a total regular levy of $825,404 and $799,331.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenditures 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 (or estimated historical cost, where historical cost is not known or estimated market value for donated assets).

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

In the case of the sale of a significant operating unit or system original cost is removed from the Port asset account, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income

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 10 to 20 years.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed.

Development of the Industrial area portion of the airport began in 1997. The cost of developing the industrial area was amortized over a ten year period.

The Port has not adopted a policy for capitalization threshold. Assets that have a life of more than one year are capitalized.

Capital asset activity for the year ended December 31, 2014 was as follows:

	Begin. Bal. 01/01/14	Increase	Decrease	End. Bal. 12/31/14
Capital Assets not being depreciated:				
Land	$ 18,458			$ 18,458
Sewer Capacity Addition	311,000			311,000
Total Capital Assets, not being depreciated	$ 329,458			$ 329,458
Capital Assets, being depreciated:				
Building	$ 2,717,939	43,609		$ 2,761,548
Improvements	6,336,821	89,283		6,426,104
Equipment	230,042		29,295	200,747
Total Capital Assets, being depreciated	$ 9,284,802	132,892	29,295	$ 9,388,399
Less Accumulated Depreciation for:				
Building	$ 1,195,738	86,669		$ 1,282,407
Improvements	2,536,956	219,638		2,756,594
Equipment	162,538	23,414	29,081	156,871
Total Accumulated Depreciation	$ 3,895,232	329,721	29,081	$ 4,195,872
Total Capital Assets, being depreciated, net	$ 5,389,570	(196,829)	214	$ 5,192,527

Capital asset activity for the year ended December 31, 2013 was as follows:

	Begin. Bal. 01/01/13	Increase	Decrease	End. Bal. 12/31/13
Capital Assets not being depreciated:				
Land	$ 18,458			$ 18,458
Sewer Capacity Addition	311,000			311,000
Total Capital Assets, not being depreciated	$ 329,458			$ 329,458
Capital Assets, being depreciated:				
Building	$ 2,717,939			$ 2,717,939
Improvements	6,155,387	181,434		6,336,821
Equipment	226,406	3,636		230,042
Total Capital Assets, being depreciated	$ 9,099,732	185,070		$ 9,284,802
Less Accumulated Depreciation for:				
Building	$ 1,111,906	83,832		$ 1,195,738
Improvements	2,386,667	150,289		2,536,956
Equipment	139,053	23,485		162,538
Total Accumulated Depreciation	$ 3,637,626	257,606		$ 3,895,232
Total Capital Assets, depreciated-net	$ 5,462,106	(72,536)		$ 5,389,570

NOTE 5 – PANGBORN AIRPORT

The airport is jointly owned by the Port of Chelan and the Port of Douglas. The joint operating agreement was drafted in 2003 and became effective January 1, 2004. The agreement states that the Port of Chelan holds an undivided 61% interest and the Port of Douglas holds an undivided 39% interest in the airport.

In January of 2013 the Port of Douglas and Port of Chelan entered into a Memorandum of Understanding for the purpose of documenting the common desire to negotiate an "Interlocal Agreement" defining their relationship regarding the operation and funding of Pangborn Memorial Airport and to delegate authority for decision making relative to the Runway Extension Project. The Memorandum of Understanding has several provisions relating to the operating and funding for Pangborn Memorial Airport. The Port of Douglas is to contribute 17% of its property taxes received (but not less than $135,880), manage the CWICC Building lease, the Pangborn Airport Business Park leases and will be responsible for 30% of the local sponsor share of the Runway Extension Project not to exceed $900,000. Any payment by the Port of Douglas of its share of the Runway Extension Project Financing shall be credited to the 17% of annual property tax contribution. A component of the Runway Extension Project Financing provides for separate revolving lines of credit, requiring interest only payments until project completion, for each port district's local sponsor share of the FAA funded project. The balance at December 31, 2014 and 2013 was $226,210 and $118,696.

Included in the Memorandum of Understanding is a loan payable in the amount of $28,500 to the Port of Chelan for a line of credit to Pangborn Memorial Airport for the fixed based fueling operations, which is payable in 4 equal annual installments of $7,125 commencing April 1, 2013. If Pangborn Memorial Airport terminates the fixed based fueling operation, the Port of Douglas will be reimbursed for this loan payment.

There was an increase in value for 2014 of $2,742,975 and an increase in value for 2013 of $650,318.

NOTE 6 – LONG TERM DEBT

The balance sheet contains a list of outstanding debt at December 31, 2014. The annual requirements to amortize all debts outstanding as of December 31, 2014 are as follows:

I. Loan Payable - Douglas County Sewer District
$273,262.60 at 4.426% interest per annum, payments of $26,690 annually including interest to 2017. Principal outstanding December 31, 2014 and 2013 was $72,020 and $94,526. On February 12, 2013 the Commissioners of Douglas County Sewer District No. 1 adopted a resolution to reduce the interest rate from 5.8% to 4.426% effective January 1, 2004. This reduced the interest for the period January 1, 2004 to December 31, 2012 by $33,968.56. The reduction was applied to the principal balance owed and is reflected in these statements. Principal outstanding at December 31, 2014 and 2013 is $72,020 and $94,526.

II. Loan Payable - East Wenatchee Water District
$98,962 at 5.25% interest per annum, payments of $4,948 annually plus interest to 2020. The principal balance was paid in full in 2013 to finalize the binding site plan for the Business Park Phase II development.

III. Lease Revenue Bonds - United States Forest Service
Principal outstanding at December 31, 2012 was $990,000. This bond was replaced with a 'refunded bond' on April 18, 2013. The 'refunded bond' was for $985,000 at 2.6% to 4% per annum, payments vary over the remaining ten years with a maturity on July 1, 2023. Principal payment of $65,000 was made July 1 on the original bond and $25,000 on July 1 for the 'refunded bond'. The amount of the 'refunded bond' includes accrued interest and fees of $60,000. Principal outstanding at December 31, 2014 and 2013 is $870,000 and $960,000.

IV. Loan Payable - Douglas County Sewer District Grant Road Sewer Extension
This loan is from the State Public Works Trust Fund through Douglas County Sewer District. The repayment of the loan began in 2005 with principal payments $81,854.47 per year plus interest at .05% per year, balance is due in 2023. The Port of Douglas has entered into an inter local agreement with Douglas County and Douglas County Sewer District, whereas the County will allocate and contribute 80% of the second .04% Rural Counties Sales and Use Tax received from the Washington State Department of Revenue pursuant to RCW 82.14.370 to a maximum of $80,000 per year to the District towards repayment of the State Public Works Trust Fund loan. The Port of Chelan has agreed to reimburse the Port of Douglas for 38.44% of the principal and interest payments. There is no provision in these statements for a receivable for future reimbursements from Port of Chelan. Principal outstanding at December 31, 2014 and 2013 is $736,690 and $818,545.

V. Loan Payable - Douglas County Sewer District Pangborn Industrial Area Sewer Extension

This loan is from the State Public Works Trust Fund through Douglas County Sewer District. The repayment of the loan began in 2005 with principal payments of $7,413.52 per year, plus interest at .05% per year, balance is due in 2021. The Port of Chelan has agreed to reimburse the Port of Douglas for 38.44% of the principal and interest payments. There is no provision in these statements for a receivable for future reimbursements from Port of Chelan. Principal outstanding at December 2014 and 2013 is $51,895 and $59,308.

VI. Limited Tax General Obligation and Refund Bonds - Phase II

Bonds issued for Business Park Phase II construction and refunding the General Obligation Bonds for Industrial Development. $1,345,000 in 2011 at 1.3% to 5 %
interest with payments from $45,000 to $150,000 per year plus interest maturing in 2031. Principal outstanding at December 31, 2014 and 2013 is $1,210,000 and $1,255,000.

VII. Loan Payable - Washington State Community Economic Revitalization Board for Industrial Infrastructure Pangborn Airport Business Park.

The total amount of the loan as of December 31, 2014 was $893,031. Payment terms 20 years, interest rate of 2.5%. Principal and interest are deferred for the first five years, then, principal and interest payments will be made over the next fifteen years.

VIII. Loan Payable - Port of Chelan - Pangborn Airport Fueling Operation.

The Port of Chelan extended a line of credit to Pangborn Memorial Airport, which has a balance of $21,375 as of December 31, 2013. The Port of Douglas is responsible for 30% of this balance or $28,500. Annual payments of $7,125 are to be over a four year beginning April 1, 2013 to the Port of Chelan. Principal outstanding as of December 31, 2014 and 2013 is $14,250 and $21,375. There is no interest due on the loan.

SCHEDULE OF CHANGES

	Begin Bal. 1/01/14	Additions	Reductions	End Bal. 12/31/14	Amt. Due Within 1Yr
Loan I	$ 94,526	$	$ 22,506	$ 72,020	$ 22,506
Bond III	960,000		90,000	870,000	90,000
Loan IV	818,545		81,855	736,690	81,855
Loan V	59,308		7,413	51,895	7,413
Bond VI	1,255,000		45,000	1,210,000	45,000
Loan VII	871,250	21,781		893,031	-0-
Loan VIII	21,375		7,125	14,250	7,125
Total	$ 4,080,004	$ 21,781	$ 253,899	$ 3,847,886	253,899

SCHEDULE OF CHANGES

	Begin Bal. 1/01/13	Additions	Reductions	End Bal. 12/31/13	Amt. Due Within 1Yr
Loan I	$ 116,079	$	$ 21,553	$ 94,526	$ 22,506
Loan II	39,585		39,585	-0-	-0-
Bond III	990,000	985,000	1,015,000	960,000	90,000
Loan IV	900,399		81,854	818,545	81,854
Loan V	66,722		7,414	59,308	7,414
Bond VI	1,300,000		45,000	1,255,000	45,000
Loan VII	768,495	102,755		871,250	-0-
Loan VIII	28,500		7,125	21,375	7,125
Total	$ 4,209,780	$ 1,087,755	$ 1,217,531	$ 4,080,004	253,899

SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS

Year	Principal	Interest
2014	253,899	90,056
2015	254,895	86,678
2016	260,936	82,829
2017	243,243	78,346
2018	232,898	97,791
2019-2023	1,300,460	417,719
2024-2028	906,917	254,253
2029-2032	626,756	61,738
Total	$ 4,080,004	$ 1,169,410

There are a number of other limitations and restrictions contained in the loan contracts. The Port is in compliance with all significant limitations and restrictions.

NOTE 7 – LEASES

a.Operating Leases

In addition to the 2.33 acre CWIC facility lease, the Port is developer and manager of the 70-acre Pangborn Airport Business Park (PABP). The lease payment to PMA for the business park is dependent on each parcel that is developed. The Port has four leases with original terms of one lease for twenty years and three leases for fifty years. The leases contain options to renew with varying option periods. The cost for such leases was $28,406 which, when combined with the $5,892 land lease payment for the CWICC property, made a total lease payment to PMA of $34,398 for the year ended December 31, 2014. The future minimum lease payments are as follows:

2015	34,297
2016	34,297
2017	34,297
2018	34,297
2019	34,297
2020 – 2024	165,593
2025 – 2029	142,025
2030 – 2034	142,025
2035 – 2039	142,025
2040 – 2044	142,025
Total	905,178

b.Capital Leases

The Port has no capital leases as of December 31, 2014.

c. Long Term Lease Receivable

The Port annually receives $157,488 in lease revenue from the CWICC facility (nine years remaining) and $148,433 in lease revenue associated with the leases described above as part of the PABP (thirty four to thirty seven years remaining). Additionally, within the Port's building at the PABP, there are five existing tenants, Commercial Millwork; North Central Washington Educational Service District; Bad Apple Jacked Cider Inc.; Bitfund Ltd and Central Washington Motorcycle Training that are currently on year-to-year lease agreements that resulted in a total of $49,744 in lease revenue for the year ending December 31, 2014. The Port is also the owner and manager of Waterville Airport and Mansfield Airport property (from monthly leases to twenty years remaining).

Minimum future rents on non-cancelable leases are as follows:

2015	305,921
2016	305,921
2017	305,921
2018	305,921
2020	305,921
Total	$1,529,605

NOTE 8 – PENSION PLANS

All of the Port's qualifying employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems under cost-sharing multiple-employer defined benefit public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issued a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplemental information for each plan. The DRS CAFR may be obtained from the Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, Accounting for pensions by State and Local Government Employers.

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

Plan Description

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 combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants 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, 2001 for local government employees are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made.

Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age 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 annual benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise, an actuarial reduction will apply. There is no cap on years of service credit; a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service, or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise, an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Both Port and employees made the required contributions. The Port required contributions for the years ending December 31 were:

	PERS Plan 1	PERS Plan 2
2014	$ 0	$ 22,720
2013	0	18,799
2012	0	16,732
2011	0	12,600
2010	0	9,694
2009	$ 0	$ 13,226

NOTE 9 – RISK MANAGEMENT

The Port is a member of the 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, 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, 2014, there are 491 Enduris members representing a broad array of special purpose districts throughout the state.

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

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

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss.
- $250,000 on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

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

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

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

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

NOTE 10 – RECEIVABLE - PORT OF CHELAN

In 2005 the Port entered into an agreement with the Port of Chelan to provide 38.4349% of the local match funds for the sewer line extension. It was determined at that time the portion for the Port of Chelan to be $70,315.19. An interlocal agreement was entered into with Port of Chelan providing annual payments of $3,870.50 including interest at 1/2%. The balance remaining to be received is $33,484.

NOTE 11 – RESTATED STATEMENTS

The statements are being restated for an error in calculating the increase in the value of the Pangborn Memorial Airport: report the bond refunding and bond fee cost in accordance with GASB 65; adjustment for prior year rent income reported as current year income; and to combine Douglas County Development Corporation with the Port. This resulted in an increase to Net Position-Ending of $137,436.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
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