

Washington State Auditor's Office
Financial Statements Audit Report

Port of Skagit County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006653

Issue Date
November 7, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 7, 2011

Board of Commissioners
Port of Skagit County
Burlington, Washington

Report on Financial Statements

Please find attached our report on the Port of Skagit County's financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Port of Skagit County January 1, 2010 through December 31, 2010

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Port of Skagit County
January 1, 2010 through December 31, 2010**

Board of Commissioners
Port of Skagit County
Burlington, Washington

We have audited the basic financial statements of the Port of Skagit County, Washington, as of and for the year ended December 31, 2010, and have issued our report thereon dated October 18, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Port's financial statements are free of material misstatement, we performed tests of the Port's compliance with certain

provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 18, 2011

Independent Auditor's Report on Financial Statements

Port of Skagit County January 1, 2010 through December 31, 2010

Board of Commissioners
Port of Skagit County
Burlington, Washington

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

The management's discussion and analysis on pages 6 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 18, 2011

Financial Section

**Port of Skagit County
January 1, 2010 through December 31, 2010**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010

Statement of Revenues, Expenses and Changes in Net Assets – 2010

Statement of Cash Flows – 2010

Notes to Financial Statements – 2010

PORT OF SKAGIT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following is the Port of Skagit County's (the Port's) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal years ended December 31, 2010 and 2009. It provides an introduction to the Port's 2010 and 2009 financial statements. Information contained in this MD&A has been prepared by the Port's Finance Department and should be considered in conjunction with the financial statements and notes.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

Overview of the Financial Statements

The financial section of this annual report consists of three parts – MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows.

The statement of net assets and the statement of revenues, expenses and changes in net assets illustrate whether the Port's financial position has improved as a result of the year's activities. The statement of net assets present information on all of the Port's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statement of revenues, expenses and changes in net assets show how the Port's net assets changed during the year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

FINANCIAL REPORT

Financial Highlights

The Port's total assets exceeded its liabilities at December 31, 2010 by \$31.9 million. Of this amount, \$29.4 million is invested in capital assets, net of related debt, \$2.1 million is restricted and \$352,906 is unrestricted. Net assets totaled \$32.1 million at the end of calendar year 2009, with \$29.7 million invested in capital assets, net of related debt, \$1.9 million restricted and \$436,175 unrestricted.

The Port's net assets decreased by \$156,618 in 2010 compared to a decrease in net assets of \$425,350 in 2009.

PORT OF SKAGIT COUNTY

In 2008 GASB required reporting of environmental remediation liabilities. GASB 49 also requires the estimated liability to be reviewed each year and adjusted when benchmarks are met or when new information indicates changes in estimated outlays. In 2010, the port reviewed its remediation liability and increased the expected outlay by \$871,232. The increase is reported on the Statement of Revenues, Expenses and Changes in Net Assets as *Change in Remediation Estimate*.

Statement Net Assets

	2010	2009
Current and Other Assets	\$ 6,617,733	\$ 6,235,811
Capital Assets	\$40,437,305	\$41,612,225
Total Assets	\$47,055,038	\$47,848,036
Long-term Debt Outstanding	\$10,017,476	\$10,953,885
Other Liabilities	\$ 5,075,307	\$ 4,775,279
Total Liabilities	\$15,092,783	\$15,729,164
Nets Assets		
Invested in Capital Assets, Net of related debt	\$29,453,019	\$29,728,166
Restricted	\$ 2,156,330	\$ 1,954,532
Unrestricted	\$ 352,906	\$ 436,175
Total Net Assets	\$31,962,255	\$32,118,873

A summarized comparison of the Port's statements of revenues, expenses, and changes in net assets for the years December 31, 2010 and 2009 follows:

Statement of Revenues, Expenses, and Changes in Net Assets

	2010	2009
Operating Revenues	\$ 4,632,400	\$ 4,326,178
Operating Expenses	\$ 6,335,124	\$ 5,970,489
Operating Income	\$(1,702,724)	\$(1,644,311)
Non-operating revenues (expenses)	\$ 158,211	\$ 304,442
Ad valorem tax revenues	\$ 1,238,608	\$ 1,236,964
Interest on general obligation bonds	\$ (488,476)	\$ (516,657)
Total Non-operating revenues (expenses)	\$ 908,343	\$ 1,027,749
Increase (decrease) in net assets	\$ (794,381)	\$ (619,563)
Capital contribution	\$ 645,615	\$ 194,212
Prior Period Adjustments	\$ (7,851)	
Net assets at beginning of year	\$32,118,873	\$32,544,223
Net assets at end of year	\$31,962,255	\$32,118,873

PORT OF SKAGIT COUNTY

Changes in Net Assets

Port operating revenues for the year ended December 31, 2010 totaled \$4.6 million compared to 2009 operating revenues of \$4.3 million, an increase of 7%. Airport revenues increased \$23,138 or 4% mostly attributed to the completion and rental of two new t-hangar facilities located on Crosswinds Drive which provided 20 additional hangars to lease. Industrial Park revenues increased \$120,438 or 9% and the Marina increased \$222,946 or 9%, both attributed to increased occupancy.

Total operating expenses increased \$364,635, which is 6% higher than 2009. The increase in 2010 is attributed to adding a communications position, additional seasonal employees, and overlap of two positions for transition time due to employee retirements.

As a result, the Port showed an overall loss after depreciation, non-operating revenues/expenses and before capital contributions, of \$794,381.

The following table shows the Port's 2010 revenue sources by activities:

Revenues by Source of Activities		
Charges for services	\$ 4,632,400	60%
Taxes	1,376,535	18%
Capital Grants	645,615	8%
Insurance/Grant Proceeds	984,435	13%
Other Revenues	<u>64,109</u>	<u>1%</u>
	7,703,094	100.00%

The \$984,435 in grant and insurance proceeds are related to the port's environmental remediation project. In 2010, the port received \$626,033 in insurance proceeds and \$358,402 in grant proceeds. These funds will be used directly for the clean up of the remediation site which is expected to occur the summer of 2011. See Note 11 in the Notes to the Financial Statements for further description of this project.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2010, the Port had \$40.4 million (net of accumulative depreciation) in capital assets. The Port's capital assets include land, buildings, improvements, machinery, equipment and construction in progress. Capital assets (net of accumulative depreciation) at December 31, 2009, totaled \$41.6 million. 2010 net capital assets decreased \$1,174,920. The decrease is attributed to \$2.5 million in construction in progress in 2009 which was not being depreciated. The majority of those projects were complete and capitalized during 2010 increasing accumulated depreciation and decreasing net capital assets.

PORT OF SKAGIT COUNTY

Debt Administration

At December 31, 2010, long-term debt outstanding totaled \$11.2 million. At December 31, 2009, long-term debt outstanding totaled \$12.1 million. Of the \$11.2 million outstanding at December 31, 2010, the amount is comprised of \$10.4 million in general obligation debt, \$65,000 represents LID debt, and \$749,230 represents the note payable.

Outstanding Bond Debt

Fiscal Year Ended	General Obligation Bonds	Revenue Bonds/ Note Payable	Total
2006	8,225,000		8,225,000
2007	7,625,000		7,625,000
2008	12,040,000	798,041	12,838,041
2009	11,220,000	774,403	11,994,403
2010	10,380,000	749,230	11,129,230

LID No. 97-1 Bonds, 2001

2006	325,000
2007	260,000
2008	195,000
2009	130,000
2010	65,000

2011 Budget

The Port's 2011 operating budget, excluding depreciation, of \$4.5 million in expenses is an increase of 15% over 2010 budgeted expenses. The increase is an addition of services for economic development initiatives, wetland mitigation and completing survey and binding site plan work, and an increase in repair and maintenance budget to complete deferred projects.

The 2011 capital budget, as adopted, is \$7.1 million. \$4.1 million of the capital budget is for the Runway 10/28 Overlay and Drainage project which is intended to provide improvements for safety and better accommodate business type aircraft which will result in increased trade and commerce at the airport. The project is contingent upon 95% funding by the Federal Aviation Administration. \$2 million of the capital budget is for the Taxiway F project. This project is an environmental remediation project and under an agreed order from the Department of Ecology. The port expects the project to be primarily funded through insurance and grant proceeds. Other planned projects for 2011 include signage, server upgrade, building upgrades, stormwater improvements and a possible land acquisition.

In 2011 the Port budgeted to collect \$1,241,366 in taxes which reflects a 0% increase compared to the 2010 budget.

PORT OF SKAGIT COUNTY

Contacting the Port's Financial Management

The Port of Skagit County designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional information please contact: Kristin Garcia, PO Box 348, Burlington, WA 98233. Telephone 360-757-0011.

PORT OF SKAGIT COUNTY
Statement of Net Assets
For the Year Ended December 31, 2010

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 1)	3,833,629
Taxes receivable	72,389
Accounts receivable (net of allowance for uncollectibles)	152,827
Current portion assessment receivable	49,111
Interest receivable	16,989
Prepaid expenses	119,864

Total Current Assets	4,244,809
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NONCURRENT ASSETS:

Restricted Assets	
Cash and cash equivalents (Note 1)	2,156,329

Capital Assets not being depreciated (Note 4)	
Land	5,339,097
Construction work in progress	713,261

Capital Assets being depreciated (Note 4)	
Buildings	28,485,122
Improvements other than buildings	39,157,012
Machinery and equipment	2,146,512
Less: Accumulated depreciation	(35,403,698)

Total Net Capital Assets	40,437,305
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Other Noncurrent Assets	
Investments (Note 2)	212,416
Deferred charges (Note 9)	4,178

Total Noncurrent Assets	42,810,229
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TOTAL ASSETS	47,055,038
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See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Net Assets
For the Year Ended December 31, 2010

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Warrants payable	61,208
Accounts payable	182,244
Accrued expenses	218,665
Accrued interest payable	35,879
Current portion notes payable	26,810
Current portion of long-term obligations	875,000
Payable from restricted assets	27,533
Customer deposits payable	240,444
#97-1 LID assessment bonds payable (Note 7)	<u>65,000</u>

Total Current Liabilities	<u>1,732,784</u>
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NONCURRENT LIABILITIES:

General obligation bonds payable (Note 7)	9,505,000
Unamortized discounts and deferred amount on refunding of bonds	(209,944)
Notes payable (Note 7)	722,420
Environmental remediation (Note 11)	3,163,628
Deferred revenue	5,000
Employee leave benefits	<u>173,896</u>

Total Noncurrent Liabilities	<u>13,360,000</u>
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TOTAL LIABILITIES	<u>15,092,783</u>
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NET ASSETS:

Invested in capital assets, net of related debt	29,453,019
Restricted for liquidation of long term debts	1,695,568
Restricted for construction of noncurrent assets	460,762
Unrestricted Net Assets	<u>352,906</u>

TOTAL NET ASSETS	<u>31,962,255</u>
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See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
 Statement of Revenues, Expenses, and Changes in Net Assets
 For the Year Ended December 31, 2010

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES:

Airport operations	608,403
Marina operations	2,581,203
Property lease/rental operations	1,437,814
General and administrative	4,980
Total Operating Revenues	4,632,400

OPERATING EXPENSES:

General operations	2,461,304
Maintenance	305,954
General and administrative	1,064,452
Depreciation (Note 4)	2,503,414
Total Operating Expenses	6,335,124

Income (Loss) From Operations	(1,702,724)
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NON OPERATING REVENUES (EXPENSES)

Interest income	28,574
Taxes levied for:	
Capital improvement (Note 3)	1,238,608
State forest revenues	123,334
Timber excise taxes	14,593
Insurance proceeds	626,033
Grant proceeds	358,402
Interest expense	(488,476)
Other nonoperating revenues	35,535
Other nonoperating (expenses)	(59,174)
Loss on disposition of assets	(4,067)
Environmental remediation expense	(93,788)
Change in remediation estimate	(871,232)
Total Nonoperating Revenues (Expenses)	908,343

Income (Loss) before capital contributions	(794,381)
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Capital Contributions	645,615
Prior Period Adjustments	(7,851)

Net Assets - Beginning of Period	32,118,873
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Net Assets - End of Period	31,962,255
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See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 4,577,838
Cash paid to suppliers for goods/services	(2,259,129)
Cash paid to employees for services	(1,971,232)
Prior period adjustment	(7,851)
Net cash provided by operating activities	\$ 339,626

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Cash received for property taxes	1,224,839
Cash received from other taxes and financing fees	149,735
Cash paid for environmental remediation	(249,689)
Cash received for fiber maintenance	7,500
Cash received for COBRA subsidy	11,030
Net cash provided (used) by non-capital financing activities	\$ 1,143,415

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Principal paid on capital debt	(930,174)
Interest paid on capital debt	(488,476)
Acquisition and construction of capital assets	(1,477,177)
Gain/(Loss)on Sale of Assets	(4,067)
Capital grants received	1,004,017
Other receipts (payments)	(23,639)
Insurance proceeds	626,034
Net cash provided by (used in) capital and related financing activities	\$ (1,293,481)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	27,985
Purchase of investments	(1,955,821)
Proceeds of investments	2,629,397
Net cash provided by investing activities	\$ 701,561

Net increase in cash and cash equivalents	\$ 891,121
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CASH AND CASH EQUIVALENTS

Beginning of year	5,098,837
End of Year	<u>\$ 5,989,958</u>

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2010

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (1,702,724)
Depreciation	2,503,414
Prior period adjustment	(7,851)
Change in assets and liabilities:	
(Incr)Decr in accounts receivable	(69,266)
(Incr)Decr in other current assets	72,991
Incr(Decr) in accounts payable	(537,172)
Incr(Decr) in customer deposits	21,397
Incr(Decr) in other liabilities	58,837
Total Adjustments	2,042,350
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 339,626

SCHEDULE OF NONCASH ACTIVITIES

Amortized Bond Discount	30,402
Amortization of Deferred Charges	22,064
Change in remediation liability	871,232
TOTAL NONCASH ACTIVITIES	\$ 923,697

See accompanying notes to the financial statements

PORT OF SKAGIT COUNTY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Skagit County was incorporated on November 30, 1964, and operates under the laws of the State of Washington applicable to a Port District. The accounting and reporting policies of the Port conform to generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. In November 2006, GASB approved Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations. These and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The Port of Skagit County, a special purpose government, provides a marina, dry boat storage, an airport, and an industrial park and is supported primarily through user charges.

An elected three-member board governs the Port. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Presentation

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

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

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

The Port distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for building and land rentals and moorage. The Port also recognizes as operating revenue other user fees such as: parking, use of shower and laundry facilities and aircraft tie down fees.

Operating expenses for the Port include: maintenance, utilities, salaries/benefits, general and administrative, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2010, the Port held \$3,833,629 in short-term residual investments of surplus cash. This amount is classified on the statement of net assets as current cash and cash equivalents.

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

2. Short Term Investments

Short term investments are those that are held for one year or less. At December 31, 2010, the Port did not hold any short term investments.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (see Note 3). Accrued interest receivable consists of amounts earned, but not yet collected, on investments at the end of the year. Accounts receivable consists of amounts owed from private individuals or organizations for rents, leases, goods and services, including amounts owed for which billings have not yet been prepared.

4. Prepaid Expenses

These amounts paid in advance for items of future benefit. The amount reported on the statement of net assets primarily consists of prepaid insurance for the port's property and general liability coverage.

5. Restricted Assets and Liabilities

These amounts contain resources for construction and/or acquisition of long term assets and debt service. They are reported on the statement of net assets as noncurrent restricted cash and cash equivalents. The current portion of related liabilities are shown as *Current Portion of Long Term Obligations* and *Payable from Restricted Assets*. Specific debt service reserve requirements are described in Note 7 – Long Term Debt.

The restricted assets are composed of the following:

Cash and Investments – Debt Service	\$1,695,568
Cash and Investments – Construction/Acquisition	<u>\$460,761</u>
Total restricted assets	\$2,156,329

6. Capital Assets and Depreciation See Note 4.

7. Other Assets and Debits

These amounts include Deferred Charges (see Note 9).

8. Current Liabilities

These accounts include amounts owed for outstanding warrants, payables, interest, taxes and contracts. Also included are the deposits being held by the Port from its customers and the current portion of the Port's long term debt.

9. Long-Term Debt See Note 7.

10. Compensated Absences

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

Vacation pay, which may be accumulated up to a maximum of 20 days, is payable upon resignation, retirement, or death. Sick leave may accumulate up to 90 days. Fifty percent of outstanding sick leave is payable upon retirement or death.

11. Other Accrued Liabilities

These accounts consist of wage and employee benefit liabilities and leasehold taxes payable.

NOTE 2 - DEPOSITS AND INVESTMENTS

DEPOSITS

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

INVESTMENTS

Investments are those that are held for more than one year. The amount is classified on the statement of net assets as non-current investments. At December 31, 2010, the Port held \$212,416 of investments.

Certificate of deposit	Matures March 15, 2012	\$212,416
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Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. None of the Port's investments are held by counterparties.

NOTE 3 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The county treasurer distributes collections at the end of each month to the Port. A revaluation of all property is required every six years.

Property Tax Calendar

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

Property taxes are recorded as a receivable when levied, offset by deferred revenue. 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 assessed valuation for general governmental purposes. This amount may be reduced for any of the following three reasons:

- a. Washington law in RCW 84.55.010 limits the growth of regular property taxes to 6 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 6 percent due to revaluation, the levy rate will be decreased.
- b. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.
- c. The Port may voluntarily levy taxes below the legal limit.

The Port's regular levy for 2010 was \$ 0.1224 per \$1,000 on an assessed valuation of \$10,141,788,243 for a total regular levy of \$1,241,366. In 2009, the regular levy was \$1,251,544.

NOTE 4-A - CAPITAL ASSETS AND DEPRECIATION

Major outlays for capital assets, including capital leases major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. The Port's policy is to capitalize all asset purchases with a cost greater than \$5,000.

All capital assets are valued at historical cost. 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.

Depreciation expense is charged to operations to allocate the cost of fixed assets over their estimated useful lives, using the straight-line method, with useful lives of three to fifty years.

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

	Beginning Balance 01/01/2010	Increases	Decreases	Ending Balance 12/31/2010
Non-Depreciable Assets:				
Land	\$ 5,339,097	\$ -	\$ -	5,339,097
Construction in progress	2,469,841	1,218,337	(2,974,917)	713,261
Total Non-Depreciable Assets	\$ 7,808,938	\$ 1,218,337	\$ (2,974,917)	6,052,358
Depreciable Assets:				
Buildings and Structures	\$ 26,547,059	1,938,062		28,485,121
Improvements other than buildings	38,227,668	929,344		39,157,012
Machinery and Equipment	2,251,810	\$ 225,000	(330,299)	2,146,511
Total Depreciable Assets	\$ 67,026,538	\$ 3,092,406	\$ (330,299)	69,788,645
Less Accumulated Depreciation for:				
Buildings and Structures	11,697,081	818,361		12,515,442
Improvements other than buildings	19,642,877	1,560,912	(2,593)	21,201,196
Machinery and Equipment	1,883,294	126,735	(322,968)	1,687,061
Total accumulated depreciation	33,223,251	2,506,008	(325,561)	35,403,698
Total Net Capital Assets	\$ 41,612,225	\$ 1,804,735	\$ (2,979,655)	40,437,305

NOTE 4-B - CONSTRUCTION IN PROGRESS

Construction in Progress represents expenses to date on projects which total \$713,261. Construction in Progress is composed of the following:

<u>Project</u>	<u>Authorization</u>	<u>Expended to 12/31/10</u>
Signage	100,000	40,000
RPZ/Van Pel	500,000	31,567
10/28 Taxiway A Rehabilitation	3,319,000	482,551
Aircraft Washdown	100,000	9,675
Pre-design Marina Layout	175,000	149,468
 TOTAL		 713,261

NOTE 5 - PENSION PLANS

Substantially all of the Port's full-time and 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, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and No.50 *an Amendment of GASB Statement No. 25 and No 27*.

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 defined benefit plan with a defined contribution component.

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, 2002 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

Plan 1 members 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 monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest paid service credit months). The retirement benefit pay not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month. Or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor options. A cost of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer price index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

PERS Plan 2 members are vested after the completion of 5 years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 24 consecutive highest paid service credit months)

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

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

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf*, *Operation Iraqi Freedom*.

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 monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 24 consecutive highest paid service credit months).

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2. PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job 30 injury.

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

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to but not yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-Vested	53,896
TOTAL	262,166

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the define contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2010 were:

	PERS PLAN 1	PERS PLAN 2	PERS PLAN 3
EMPLOYERS*	5.31%**	5.31%**	5.31%***
EMPLOYEES	6.00%****	3.90%****	****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

**The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.5% for Plan 1 and 3.9% for Plan 2.

*****Variable for 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Port and the employees made the required contributions. The Port's required contributions for the three years ended December 31st, were:

	PERS PLAN 1	PERS PLAN 2	PERS PLAN 3
2010	2,605	66,202	846
2009	4,123	103,290	
2008	4,179	97,725	

NOTE 6 - RISK MANAGEMENT

Port of Skagit County is a member of Enduris Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Inter-local Cooperation Act.

Enduris was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Inter-local Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2010, there are 451 Enduris members representing a broad range of special purpose districts. Some of the districts include; health districts, port districts, public utility districts, water districts, sewer districts, irrigation districts, reclamation districts, diking districts, drainage districts, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park & recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations, and quasi-municipal corporations.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated underwriters that are subject to a "per occurrence":

\$750,000 deductible on liability loss (9/1/09 – 12/31/09) the member is responsible for the first \$5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$750,000 on liability loss;

\$1,000,000 deductible on liability loss (1/1/10 – 8/31/10) the member is responsible for the first \$5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$995,000 on liability loss;

\$250,000 deductible on property loss the member is responsible for the first \$25,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$225,000 on liability loss. Enduris is responsible for the \$0 deductible boiler and machinery loss;

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the 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 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 the Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Intergovernmental Contract.

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

A Board of Directors consisting of seven (7) board members governs the 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 the Enduris.

NOTE 7 - LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The Port issues general obligation bonds to finance capital improvements to the marina, industrial park and the Skagit Regional Airport. The district is also liable for notes that were entered into for the purchase of storage units located at the La Conner Marina.

The long term portion of general obligation bonds outstanding are as follows, these amounts are represented as long term bonds payable (net of amortized discount) on the statement of net assets:

Date of Issue	Purpose	Original Amount	Interest Rate	Maturity	Amount Outstanding
10/27/1998	Hopper Rd	1,550,000	3.70 – 4.15%	12/01/2013	265,000
03/01/2004	Refunding	8,020,000	2.00 – 4.375%	12/01/2023	4,765,000
03/27/08	Facilities	5,155,000	2.75% - 4.80%	12/31/2027	4,475,000
Total General Obligation Bonds					9,505,000
Less unamortized discounts and deferred amounts on refunding					(209,944)
Total Long Term Bonds Payable					9,295,056

LID BONDS

The Port issued LID bonds for infrastructure costs at the Hopper Road Business Park in 2001. The Port will pay off this obligation December 1, 2011, therefore there is no long term outstanding liability as of December 31, 2010. The current amount obligated as of December 31, 2010 is reported on the Statement of Net Assets under *Current Liabilities 97-1 LID Assessment Bonds Payable*.

NOTES PAYABLE

On October 30, 2008 the Port signed a Note Payable for the purchase of storage unit facilities located at the La Conner Marina. The long term portion of Notes Payable outstanding is as follows, this amount is represented as Notes Payable on the statement of net assets:

Date of issue	Original amount	Interest Rate	Maturity	Amount
10/30/08	800,000	6.5%	06/30/2027	722,420

The annual debt service requirements to maturity for general obligation bonds, LID 97-1 bonds, and notes payable are as follows:

Year Ending December 31	General Obligation		97-1 LID Bonds		Notes Payable		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$ 875,000	\$ 406,135	\$ 65,000	\$ 3,380	\$ 26,810	\$ 48,700	\$ 1,425,025
2012	\$ 895,000	\$ 377,145			\$ 28,553	\$ 46,957	\$ 1,347,655
2013	\$ 930,000	\$ 346,259			\$ 30,408	\$ 45,101	\$ 1,351,768
2014	\$ 815,000	\$ 312,092			\$ 32,385	\$ 43,125	\$ 1,202,602
2015	\$ 855,000	\$ 281,524			\$ 34,490	\$ 41,020	\$ 1,212,034
2016-2020	\$ 2,870,000	\$ 983,091			\$ 209,138	\$ 168,411	\$ 4,230,640
2021-2025	\$ 2,405,000	\$ 416,690			\$ 286,538	\$ 91,012	\$ 3,199,240
2026-2027	\$ 735,000	\$ 45,330			\$ 100,908	\$ 7,424	\$ 888,662
TOTALS	\$ 10,380,000	\$ 3,168,266	\$ 65,000	\$ 3,380	\$ 749,230	\$ 491,750	\$ 14,857,626

Unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2010, the Port has \$1,695,568 available in sinking funds and reserves as required by bond indentures. This amount is reported on the port's statement of net assets as restricted for the liquidation of long term debt.

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

	Beginning Balance 01/01/10	Additions	Reductions	Ending Balance 12/31/10	Due Within One Year
1998 LTGO	\$ 510,000		\$ 120,000	\$ 390,000	\$ 125,000
2004 LTGO	\$ 5,855,000		\$ 535,000	\$ 5,320,000	\$ 555,000
97-1 LID	\$ 130,000		\$ 65,000	\$ 65,000	\$ 65,000
2008 LTGO	\$ 4,855,000		\$ 185,000	\$ 4,670,000	\$ 195,000
2008 Notes Payable	\$ 774,404		\$ 25,174	\$ 749,230	\$ 26,810
Less deferred amounts: For issuance discounts on refunding					
	(240,345)		\$ 30,402	\$ (209,943)	
Total long-term liabilities	\$ 11,884,059		\$ 899,772	\$ 10,984,287	\$ 966,810

NOTE 8 - CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities, including an estimate to situations which are not yet resolved but where, based on available information, management believes it is probable that the Port will have to make payment. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

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

NOTE 9 – DEFERRED DEBITS (CREDITS)

In accordance with generally accepted accounting principles for regulated businesses, the Port has deferred intangible asset costs of \$4,178 in 2010, which will be amortized on the straight line method over fifteen years. The cost resulted from costs of development and infrastructure. The charges would have been included in net income for 2010 in non-regulated businesses, but for ratemaking purposes are treated as applicable to future periods. Amortization of these costs resulted in amortization expense in 2010 of \$22,063.

In 2010, the port recorded deferred revenue of \$5,000 which is reported on the Statement of Net Assets under *NonCurrent Liabilities*. The deferred revenue resulted from a contractual agreement between the Port of Skagit County and Skagit County requiring payment by Skagit County for future maintenance of the port's fiber system. Revenue will be recognized when expenses are incurred.

NOTE 10 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions.

NOTE 11 – LONG TERM LIABILITY - POLLUTION REMEDIATION OBLIGATIONS

A. Nature, Scope, and Source of Pollution Remediation Obligations

The remediation site is located adjacent to Taxiway F near the western edge of the Skagit Regional Airport in Burlington Washington. The area consists of a paved taxiway, a hangar/storage building and nearby undeveloped areas. In 1978, the Port leased the portion of the remediation site, immediately adjacent to the taxiway, to a series of individuals and companies engaged in the crop dusting business. As part of the crop dusting operations, the hangar/storage building was constructed on the site to be used for aircraft parking and material storage, including storage of chemicals used for crop dusting. The chemicals included pesticides, herbicides and fungicides. In 2000, the Port discovered stained soils at the site and began the process of soil and groundwater sampling to determine the extent of site contamination.

In 2004, the Port entered into the voluntary cleanup program with the Department of Ecology. From 2006-2008, the Port conducted an internal remediation investigation/feasibility study and developed it's own cleanup action plan. The Port's internal investigation documented the presence of pesticides and fungicides.

The Port exited the voluntary cleanup program in February 2009 and on April 10, 2009 entered an agreed order with the Department of Ecology. The site will be cleaned up under a consent degree with the Department of Ecology.

B. Amount of Estimated Liability

The initial estimated liability recorded in 2008 for implementation of GASB 49 was \$2.8 million. GASB 49 requires estimates of pollution remediation liabilities to be adjusted when benchmarks are met or when new information indicates changes in estimated outlays. Based on expected outlays for clean up of the remediation site as of 12/31/09, the probability analysis prepared by the port's engineering firm, estimates the actual costs of clean up to range from \$700,129 to \$2,800,516 for an average of \$1,750,323. The updated estimate reduced the port's remediation liability in 2009 by \$222,217. As of 12/31/2010, estimated outlays range from \$1,668,262 to \$3,574,848 for an average of \$2,621,555. The updated estimate increased the port's remediation liability in 2010 by \$871,231. This adjustment is reported on the Statement of Revenues, Expenses, and Changes in Net Assets. The Port also expects to pay legal fees in 2010 in both the agreed order and insurance recovery process, however these costs are not estimable at this time and not included in the liability reported as of 12/31/10.

C. Methods and Assumptions Used for the Estimate

The estimated construction range of \$1,668,252 to \$3,574,848 for the site cleanup is determined from standard industry engineering figures based on estimated quantities and unit costs. The primary variable in determining the construction cost is the estimated volume of soil excavation. The low cost range reflects a small volume of soil excavation whereas the high range reflects the likely maximum volume of soil excavation. The Port's engineering consultant provided probability estimates which were used in calculating the amount of the liability to be recorded in the financial statements. The Department of Ecology, through the agreed order process, will define the extent of the cleanup area and level of soil excavation. Once these parameters have been developed, a more discreet cost of the cleanup can be determined. The primary change in the liability estimate is due to the additional known excavation volume and full accounting of engineering costs.

D. Potential for Changes

Construction estimates will be evaluated annually and may be revised as further information is discovered. For example, sufficient work has not yet been performed through the agreed order process to fully identify the scope of work for the cleanup project which will most likely affect construction estimates. Costs may also be revised due changes in the economy such as price increase/decreases, other factors influencing costs may include changes in technology, and applicable laws and regulations. Such changes impacting the construction estimate for 2010 is noted in section B above.

E. Estimated Recoveries

In 2010 the port received a total of \$626,033 in insurance proceeds and \$358,402 in grant proceeds. As of April 30, 2011, the port has received an additional \$550,005 in insurance proceeds and \$48,650 in grant proceeds.

NOTE 12 – OTHER DISCLOSURES

A. Extraordinary Items

In 2010 the port conducted a full asset inventory and surplussed items that were declared of no use to the port. Subsequent to the asset inventory, the port held a public auction to dispose of those assets. The proceeds from the auction were recorded in the port's asset system and the port recognized an overall loss on disposal of assets in the amount of \$4,067.

B. Prior Period Adjustments

The port reported a prior period adjustment on the Statement of Revenues, Expenses and Changes in Net Assets in the amount of \$7,851. During the past several years when reconciling the port's records to Skagit County's general ledger detail reports, there were at times immaterial discrepancies which could not be identified. At other times the records balanced. In 2010, it was noted early on that the discrepancies continued to occur. Port staff spent a considerable amount of time researching the issue and then determined by cost benefit analysis it was more efficient to record a prior period adjustment to correct the discrepancy. As of May 2011, the port's records have balanced every month, without discrepancy, to the County's report.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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