Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Port of Walla Walla

Walla Walla County

Audit Period

January 1, 2012 through December 31, 2012

Report No. 1010417

Issue Date

September 16, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 16, 2013

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Port of Walla Walla
Walla Walla County
January 1, 2012 through December 31, 2012

Federal Summary

Port of Walla Walla
Walla Walla County
January 1, 2012 through December 31, 2012

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

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

CFDA No.	Program Title
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Port did not qualify as a low-risk auditee under OMB Circular A-133.

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

Port of Walla Walla
Walla Walla County
January 1, 2012 through December 31, 2012

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 6, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we have reported to the management of the Port in a separate letter dated September 6, 2013.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 6, 2013

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

Port of Walla Walla
Walla Walla County
January 1, 2012 through December 31, 2012

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Walla Walla, Walla Walla County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Port's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 6, 2013

Independent Auditor's Report on Financial Statements

Port of Walla Walla
Walla Walla County
January 1, 2012 through December 31, 2012

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Walla Walla, as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 19 and information on postemployment benefits other than pensions on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2013 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port’s internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 6, 2013

Financial Section

Port of Walla Walla
Walla Walla County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Introduction

The following is the Port of Walla Walla's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2012 and 2011. It provides an introduction to the Port's 2012 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the 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 position, the statement of revenues, expenses, and changes in fund net position, and the statement of cash flows.

The statement of net position and the statement of revenues, expenses, and changes in fund net position tell us if the Port as a whole is better or worse off as a result of the year's activities. The statement of net position presents information on all of the Port's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or 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 fund net position shows how the Port's net assets changed during the most recent 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 assets of the Port exceeded its liabilities at close of calendar year 2012 by $64,940,412. Of this amount, $53,656,133 was invested in capital assets, net of related debt, $10,699,953 was unrestricted assets, $95,059 was restricted for debt service, and $489,267 was restricted for FAA projects. As a comparison, net assets totaled $60,877,340 at the end of calendar year 2011, with $54,852,863 invested in capital assets, net of related debt, $5,257,466 in unrestricted assets, $599,665 restricted for debt service, and $167,346 restricted for WSDOT grain cars. For details refer to the Statement of Net Position and Note 12 of the Notes to the Financial Statements.

Financial Highlights (Continued)

The Port's net position increased by $4,885,055 in 2012 compared to a $1,486,915 increase in 2011 figures (as restated). The increase was largely attributable to the Port selling the Melrose Building and Property to Columbia REA.

Financial Position Summary

The statement of net position presents the financial position of the Port at the close of calendar year 2012. The statement includes all Port assets and liabilities. Net position serves as an indicator of the Port's financial position. A summarized comparison of the Port's assets, liabilities, and net assets at December 31, 2012 and 2011, follows:

Financial Report (Continued)

Statements of Net Position

.	2012	2011
Current assets	$ 11,694,632	$ 6,440,932
Restriced assets - cash	$ 489,267	$ 531,952
Restricted assets – investments	$ 95,059	$ 235,059
Net capital assets	$ 59,142,383	$ 61,008,403
Other assets	$ 121,771	$ 137,303
Total assets	**$ 71,543,112**	**$ 68,353,649**
Current liabilities	$ 929,269	$ 1,238,368
Long-term liabilities	$ 5,673,431	$ 6,237,941
Total liabilities	**$ 6,602,700**	**$ 7,476,309**
Net assets:		
Invested in capital assets, net of debt	$ 53,656,133	$ 54,852,863
Restricted for debt service	$ 95,059	$ 108,387
Restricted for FAA Projects	$ 489,267	$ 491,278
Restricted for WSDOT grain cars	$ -	$ 167,346
Unrestricted	$ 10,699,953	$ 5,257,466
Total net assets	**$ 64,940,412**	**$ 60,877,340**

Financial Operation Highlights

As noted earlier, the Port uses only one fund, an enterprise fund to comply with Washington State mandated reporting requirements. The following summary compares the 2012 and 2011 operating results to budget and prior years.

Revenues – Year-to-date operating revenues of $4,498,182 were up 7% as compared to 2011 revenues of $4,207,233. The Port realized increased revenues from almost all of its business parks. The increase is related to built-in rental increases from current tenants and an increase in demand for rental space associated with an improving economy. Revenue generated from Airport crop sales was also strong and exceeded budget projections.

Expenses – Year-to-date operating expenses of $4,146,047 were slightly up as compared to 2011 expenses of $4,132,390. The increase in operating expenses was diminutive and associated to general increases in operating a public entity involving labor, utilities and insurance.

Financial Report (Continued)

Financial Operation Highlights (Continued)

Nonoperating – Year-to-date nonoperating revenue for 2012 was $5,918,319 as compared to $3,539.668 for 2011. This increase is largely due to income from the Port selling the Melrose Building and Property to Columbia REA.

A summarized comparison of the Port's statements of revenues, expenses, and changes in fund net position for the years ended December 31, 2012 and 2011 were as follows:

Statements of Revenues, Expenses, and Changes in Fund Net Position

	2012	2011
Operating revenues	$ 4,498,182	$ 4,207,233
Operating expenses before depreciation	$ (4,146,047)	$ (4,132,390)
Depreciation	$ (3,043,616)	$ (3,081,772)
Operating loss	**$ (2,691,481)**	**$ (3,006,929)**
Nonoperating revenues:		
Ad valorem tax revenues	$ 1,847,287	$ 1,810,038
Interest expense	$ (207,276)	$ (286,278)
Other, net	$ 4,278,308	$ 2,015,908
Total nonoperating revenues	**$ 5,918,319**	**$ 3,539,668**
Increase in net assets, before capital contributions	**$ 3,226,838**	**$ 532,739**
Capital contributions	$ 1,658,217	$ 954,176
Increase in net assets	**$ 4,885,055**	**$ 1,486,915**
Net assets, beginning of year	$ 60,055,357	$ 59,390,425
Net assets, end of year	$ 64,940,412	$ 60,877,340

Financial Operation Highlights (Continued)

Capital Assets – The Port's investment in capital assets for its business activities as of December 31, 2012, amounted to $59,142,383 (net of accumulated depreciation) which represents a 2.7% decrease over 2011. This investment in capital assets includes land, buildings, improvements, machinery, equipment, and construction in progress. Net capital assets at December 31, 2011, totaled $61,008,403, a decrease of 0.49% over 2010. For details refer to Note 4 in the Notes to the Financial Statements.

Financial Report (Continued)

Financial Operation Highlights (Continued)

Major capital asset events during 2012 include the following:

Sold the Melrose Building and Property to Columbia REA in the Melrose Business Park for $5,323,771.

Sold Land to Railex in the Dodd Road Industrial Park for $432,594.

Completed Dodd Road water line and fire hydrant extension for the FBAC building in the

Dodd Road Industrial Park for a total cost of $308,488.

Completed the Artist Colony Infrastructure in the Dell Ave Business Park for a total cost of $209,388 ($126,142.87 expended in 2011).

Debt Administration

Long-Term Debt – At December 31, 2012, the Port's total long-term outstanding debt was $5,486,250 (excluding employee leave benefits). Of this amount, $4,501,977 comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt is secured solely by specified revenue sources. At December 31, 2011, the total long-term debt was $6,155,540 with $5,017,240 being general obligation debt. For details refer to Note 8 in the Notes to the Financial Statements.

The Port's bond rating has been stable. In September 1999, Moody's assigned a rating of A3 for a $5.6 million general obligation bond issue for the construction of the new airport terminal building. In April 2005, Moody's assigned a rating of A3 for a $2,260,000 general obligation refunding bond. In June 2007, Moody's assigned a rating of A3 for a $525,000 Limited Tax General Obligation Bond for the Burbank Water System Phase I construction.

On April 23, 2010, Moody's Investor Services applied its new Global Scale Rating of A1 to all of the Port's outstanding Limited Tax General Obligation Bonds. In November 2010, Moody's assigned a rating of A1 for the $1,975,000 general obligation bond issue (refunding 1999 Series B). As listed above the Port previously had all A3 ratings.

Economic Factors and 2013 Budget

Economic Factors

The Walla Walla economy continues to be a model of stability. This is due in part to our diverse employment base which encompasses three higher education institutions, a large governmental presence (VA hospital, Army Corps of Engineers district office, and Washington State Penitentiary), regional medical facilities and agriculture. The region continues to receive positive regional and national press for our growing wine industry and revitalization of downtown area.

The Port believes 2013 will result in increased economic activity for the area. There continues to be strong interest in business park properties the Port owns in Western Walla Walla County. Most recently business leads have increased for properties the Port owns in the urban area of the City of Walla Walla.

A good source of economic data on the County can be found on the Port-sponsored website: www.wallawallatrends.ewu.edu.

2013 Budget:

Port Projected Major Capital Expenditures:

The Port has a host of major capital projects planned. They include the following:

> A sewer line extension project to the City of Pasco that will bring sewer services to the Ports Burbank Business Park and surrounding community. Estimate investment of 3 to 5 million.
>
> Rail improvements at Dodd Road Business Park. Estimate investment of 2 to 5 million.
>
> Property Acquisition. Estimate investment of 1.6 million.
>
> Construction of water system improvements for Dodd Road and Walulla Business Parks. Estimated investment of 4.0 million.
>
> Rehabilitation of the airport general aviation ramp. Estimated cost of 3 million.

The Port is a very dynamic economic development organization and the Ports capital budget priorities can quickly change based on business opportunities that present themselves.

Economic Factors and 2013 Budget (Continued)

2013 Budget (Continued)

Tax Levy:

The Port's tax levy rate has been declining from $0.44 per $1,000 of assessed value in 2006 to $0.375971 per $1,000 of assessed value in 2011. The tax levy rate for 2013 is projected to decrease slightly to $0.373923 per $1,000 of assessed value and yield $1,851,595. The tax levy is used for debt service, capital expenditures, environmental clean-up and investments that facilitate transportation. The Port's statutory maximum tax levy rate is $0.45 per $1,000 of assessed property value.

Request for Information

The Port 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 visit our website at www.portwallawalla.com or contact James M. Kuntz, Executive Director, jk@portwallawalla.com, or Donna Watts, Auditor/Treasurer, dw@portwallawalla.com, 310 A Street, Walla Walla, Washington 99362-2269, Phone (509) 525-3100, Fax (509) 525-3101

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	11,429,793
Restricted Assets:		
Cash and Cash Equivalents	$	489,267
Property Taxes Receivable, Net	$	104,336
Accounts Receivable, Net	$	124,014
Interest Receivable	$	11
Inventory	$	36,478
Total Current Assets	$	12,183,899
Noncurrent Assets		
Restricted Assets:		
Investments	$	95,059
Capital Assets Not Being Depreciated		
Land	$	13,420,419
Construction in Progress	$	3,454,377
Capital Assets Being Depreciated		
Buildings	$	27,273,321
Improvements Other Than Buildings	$	38,498,420
Machinery and Equipment	$	9,878,081
Less: Accumulated Depreciation	$	(33,382,235)
Deferred Charges	$	121,771
Total Noncurrent Assets	$	59,359,213
Total Assets	$	71,543,112
LIABILITIES		
Current Liabilities		
Accrued Expenses	$	112,703
Accrued Interest Payable	$	31,210
Current Portion of Long-Term Obligations	$	614,203
Current Portion of Employee Leave Benefits	$	71,140
Other Current Liabilities	$	100,013
Total Current Liabilities	$	929,269
Noncurrent Liabilities		
General Obligation Bonds	$	4,047,726
Revenue Bonds	$	90,000
Other Long-Term Debt	$	734,321
Employee Leave Benefits	$	312,117
Unearned Revenue	$	489,267
Total Noncurrent Liabilities	$	5,673,431
Total Liabilities	$	6,602,700
NET POSITION		
Net Investments in Capital Assets	$	53,656,133
Restricted for Debt Service	$	95,059
Restricted for FAA Projects	$	489,267
Unrestricted	$	10,699,953
Total Net Position	$	64,940,412

The accompanying notes are an integral part of this financial statement.

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES		
Airport Operations	$	2,909,387
Property Lease/Rental Operations	$	1,588,795
Total Operating Revenues	$	4,498,182
OPERATING EXPENSES		
General Operations	$	1,989,066
Maintenance	$	382,374
General and Administration	$	1,774,607
Depreciation	$	3,043,616
Total Operating Expenses	$	7,189,663
Operating Income (Loss)	$	(2,691,481)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	$	37,821
Tax Levied for General Purpose	$	1,847,287
Gain on Disposal of Assets	$	3,528,577
Interest Expenses	$	(207,276)
Nonoperating Revenues	$	711,910
Total Nonoperating Revenues	$	5,918,319
Income (loss) before other	$	3,226,838
Capital Contributions	$	1,658,217
Increase (decrease) in net position	$	4,885,055
Net Position - Beginning of Period	$	60,055,357
Net Position - End of Period	$	64,940,412

The accompanying notes are an integral part of this financial statement.

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$	4,605,419
Payments to Suppliers	$	(3,262,274)
Payments to Employees	$	(899,380)
Other Receipts (Payments)	$	711,950
Net cash provided (used) by operating activities	$	1,155,715
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Property Taxes	$	1,847,287
Net Cash Provided (Used) by Noncapital Financing Activities	$	1,847,287
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	$	5,757,913
Capital Contributions	$	1,658,217
Purchases and Construction of Capital Assets	$	(4,281,819)
Principal Paid on Bond Maturities and Contracts	$	(671,301)
Interest Paid on Bonds and Contracts	$	(207,740)
Net Cash Provided (Used) by Capital and Related Financing Activities	$	2,255,270
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	$	95,059
Purchases of Investments	$	(95,059)
Interest and Dividends	$	37,781
Net Cash Provided by Investing Activities	$	37,781
Net Increase (Decrease) in Cash and Cash Equivalents	$	5,296,053
Balances - Beginning of the Year	$	6,623,007
Balances - End of the Year	$	11,919,060
Reconciliation of Operating Income (Loss) Activities to Net Cash Provided (Used) by Operating		
Operating Income (Loss)	$	(2,691,480)
Other Nonoperating Income	$	711,950
Depreciation Expense	$	3,043,616
Changes in Assets and Liabilities		
Decrease in Account Receivable	$	34,048
Decrease in Inventory	$	12,907
Increase in Accrued Liabilities	$	10,461
Increase in Employee Leave Benefits	$	34,213
Net Cash Provided by Operating Activities	$	1,155,715

The accompanying notes are an integral part of this financial statement.

PORT OF WALLA WALLA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

ASSETS		
Cash	$	36,062
Interest Receivable	$	238
Investments	$	140,050
Total Current Assets	$	176,349
LIABILITIES		
Payable to WSDOT	$	176,349
Total Liabilities	$	176,349
NET POSITION		0

The Notes to the financial statements are an intergral part of this statement. For more details, refer to Note 12 in the Notes to the Financial Statements.

Note 1 – Summary of Significant Accounting Policies

The Port of Walla Walla (the Port), Walla Walla County (the County), Washington, was incorporated on 1952, and operates under the laws of the state of Washington applicable to a Port district. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

The Port is a special purpose government entity involved in a host of economic development activities. The Port owns multiple industrial parks and municipal water systems throughout the County and is the owner and operator of the Walla Walla Regional Airport. The Port derives its revenues from user fees, rentals of property, property taxes, and grants. Substantially all of the Port's real property is leased to businesses and individuals in the County. An elected three-member board governs the Port. As required by accounting principles generally accepted in the United States of America, management has considered all potential component units in defining the reporting entity.

The Port of Walla Walla Public Corporation is a blended component unit of the Port. The Port of Walla Walla Public Corporation is a special purpose government with limited powers and governed by a Board of Directors, which is comprised of the same members as the Port Commission. This component unit issues tax exempt non-recourse industrial revenue bonds to assist in private economic development projects. The Port of Walla Walla Public Corporation has had no activity for several years and its account balances are not material to the Port's financial statements.

B. Basis of Account and Reporting

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

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

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

The Port distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Account and Reporting (Continued)
goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for airport operations and property leases. The Port also recognizes as operating revenue water system revenues and other rental operations. Operating expenses for the Port include general operation expenses, maintenance expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest temporary cash surpluses. At December 31, 2012, the Port was holding $11,919,060 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

On February 8, 2001, the Port Commission adopted Resolution 02-08-01, designating the Port as its own treasurer effective March 31, 2001. On July 29, 2010, the Port Commission adopted Resolution 07-29-10 designating Patricia Butler, CPA, the Port Auditor/Treasurer effective July 29, 2010. On September 13, 2012, the Port Commission adopted Resolution 09-13-12 designating Donna Watts, CPA, the Port Auditor/Treasurer effective September 14, 2012.

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

2. Receivables

Taxes receivable consist of property taxes and related interest and penalties (see note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered. Management considers customer accounts receivable to be fully collectible as of December 31, 2012, in all material respects.

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position (Continued)

3. Inventories

Inventories are valued by the FIFO method. Inventory items consist of aviation fuel only; all other items such as supplies are expensed when purchased. The amount of unused supplies and similar items on hand at December 31, 2012, is not material.

4. Restricted Assets and Liabilities

These accounts contain resources for construction, debt service and monies held for others. Restricted assets at December 31, 2012, are composed of the following:

Restricted Assets and Liabilities		
Cash and Investments, Debt Service	$	95,059
Cash Restricted for FAA Projects	$	489,267
Total Restricted Assets and Liabilities	**$**	**584,326**

5. Capital Assets and Depreciation

See Note 4, Capital Assets and Depreciation

6. Other Assets and Debits

These accounts include preliminary costs incurred for proposed construction projects. If construction is completed, the related costs are capitalized as part of the cost of the assets; if the project is abandoned; related costs are charged to expense. See note 8 for details regarding deferred charges.

7. Custodial Accounts

This account reflects the liability for net monetary assets being held by the Port in its trustee or agency capacity.

8. 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, is payable upon resignation, retirement, or death. Maximum vacation accrual shall be limited to 320 hours. Employees with 5 years of service may cash out one week of vacation when they have reached the maximum accrual (for up to two weeks per year). Sick leave may accumulate up to

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position (Continued)

Compensated Absences (Continued)

1,440 hours. An employee with five years or more of service is eligible for a 25 percent cash out of unused sick leave hours upon termination of his/her service with the Port.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt

These accounts consist of debt issued by the Port to finance the purchase of land and buildings and acquisition or construction of buildings. See long-term debt note 9.

11. Advertising

Advertising costs are charged to expense in the year incurred.

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates

Note 2 – Deposits and Investments

A. Deposits

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

Note 2 – Deposits and Investments (Continued)

B. Investments

As of December 31, 2012, the Port had the following investments:

Investment	Maturities	Fair Value of Port's Investments	Fair Value of Investments held by Port as an Agent for other Local Governments	Total
State Investment Pool	12/31/2012	$ 170		$ 170
Restricted for Debt Service: Certificate of Time Deposit	5/22/2013	$ 95,059		$ 95,059
WSDOT Certificate of Time Deposit	3/23/2013		$100,000	$ 100,000
WSDOT Certificate of Time Deposit	5/28/2013		$ 40,050	$ 40,050
	Total	**$ 95,229**	**$ 140,050**	**$ 235,279**

Port investments are managed consistent with the Port investment policy established by the Port Commission per Resolution 02-28-01-A. The foremost objective is safety of principal followed by liquidity. All Port investments are held in qualified financial institutions within Walla Walla County. The Port investments are held as "Certificates of Deposit." When they mature or the Port has excess cash to invest, the Port bids the investment among local qualified financial institutions in order to get the best yield possible. The Port follows the same guidelines and rules when investing for other local governments investments.

Note 3 – Property Tax

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

Note 3 – Property Tax (Continued)

Property Tax Calendar	
January 1	Tax is 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 market value.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services.

The Port's regular levy for 2012 was $0.376841 per $1,000 on an assessed valuation of $4,871,018,626 for a total regular levy of $1,835,600.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Note 4 – Capital Assets and Depreciation

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

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets). (Donations by developers [and customers] are recorded at the contract price or donor cost or appraised value).

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.

(The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation.) (However, in the case of the sale of a significant operating unit or system, the original cost is removed from the (district) plant accounts, accumulated

Note 4 – Capital Assets and Depreciation (Continued)

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.)

(An allowance for funds used during construction is capitalized as part of the cost of the plant. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.)

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives using the straight-line method with useful lives of 5 to 40 years.

Capital assets activity for the year ended December 31, 2012, was as follows:

	Balance January 1, 2012	Increases	Decreses	Balance December 31, 2012
Capital Assets, Not Being Depreciated				
Land	13,572,462.89	0.00	(152,043.99)	13,420,418.90
Construction in Progress	191,765.03	3,454,377.24	(191,765.03)	3,454,377.24
Total Capital Assets, Not Being Depreciation	**13,764,227.92**	**3,454,377.24**	**(343,809.02)**	**16,874,796.14**
Capital Assets, Being Depreciated				
Buildings	31,846,261.16	436,642.72	(5,009,582.81)	27,273,321.07
Improvement Other Than Buldings	38,218,593.45	536,899.72	(257,073.77)	38,498,419.40
Machinery and Equipment	9,789,957.95	91,358.01	(3,235.00)	9,878,080.96
Total Capital Assets Being Depreciated	**79,854,812.56**	**1,064,900.45**	**(5,269,891.58)**	**75,649,821.43**
Less Accumulated Depreciation For:				
Buildings	(13,340,259.01)	(921,874.50)	3,007,186.37	(11,254,947.14)
Improvement Other Than Buldings	(16,021,314.56)	(1,752,321.22)	179,710.73	(17,593,925.05)
Machinery and Equipment	(4,123,951.57)	(412,645.81)	3,235.00	(4,533,362.38)
Total Accumulated Depreciation	**(33,485,525.14)**	**(3,086,841.53)**	**3,190,132.10**	**(33,382,234.57)**
Total Capital Assets Being Depreciated, net	**46,369,287.42**	**(2,021,941.08)**	**(2,079,759.48)**	**42,267,586.86**
Capital Assets, Net	**60,133,515.34**	**1,432,436.16**	**(2,423,568.50)**	**59,142,383.00**

Construction Commitments

The Port has active construction projects as of December 31, 2012. The projects include re-roofing the Cott/Cliffstar building, construction of Railex Road extension to the Wine Warehouse, and construction of the infrastructure of the Waitsburg Business Park.

Construction Commitments (Continued)

At year-end the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Cott/Cliffstar Roof Repairs	$ 381,362	$ 99,691
Railex Road Extension to Wine Warehouse	$ 517,722	$ 60,000
Waitsburg Business Park	$ 34,719	$ 420,000
	Total	**$ 579,691**

(Of the committed balance of $579,691 the Port will provide financing from Cash and Cash Equivalents)

Note 5 – Stewardship, Compliance, and Accountability

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

Note 6 – Pension Plans

Substantially all of 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 Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P. O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, and the GASB Statement No. 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

Note 6 – Pension Plans (Continued)

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

Plan Description (Continued)

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or 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 is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2% 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 may not exceed 60% of AFC.

Note 6 – Pension Plans (Continued)

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

Plan Description (Continued)

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. 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. Plan 1 members may elect to receive an optional 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. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two 2 percent 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 benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the 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.

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

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on Consumer Price Index), capped at 3 percent annually.

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

Note 6 – Pension Plans (Continued)

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

Plan Description (Continued)

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

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

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

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

Note 6 – Pension Plans (Continued)

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

Plan Description (Continued)

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.

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.

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

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

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

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

Note 6 – Pension Plans (Continued)

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

Plan Description (Continued)

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.

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

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

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

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Nonvested	46,839
Total	**261,705**

Note 6 – Pension Plans (Continued)

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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 defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the 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, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	7.21% **	7.21% **	7.21% ***
Employee	6.00% ****	4.64% ****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plans 2 and 3.
***Plan 3 defined benefit portion only.
****The employee rate for state elected officials is 7.5% for Plan 1 and 4.64% for Plan 2.
*****Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

Note 6 – Pension Plans (Continued)

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

Funding Policy (Continued)

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee- Local Government	12.26%	11.60%	7.50%***

*The employer rates include the employer administrative expense fee currently se at 0.16%.
**Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	-	61,999	-
2011	-	51,142	-
2010	-	43,522	-
2009	23,423	51,607	-
2008	4,731	51,783	-
2007	3,650	25,845	-
2006	1,823	16,172	-
2005	1,034	5,338	-
2004	704	4,202	-
2003	664	3,822	-
2002	1,407	4,884	-

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively

Note 6 – Pension Plans (Continued)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)

Plan Description (Continued)

effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

Note 6 – Pension Plans (Continued)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)

Plan Description (Continued)

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may 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 allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at the age of 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Note 6 – Pension Plans (Continued)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)

Plan Description (Continued)

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

Note 6 – Pension Plans (Continued)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)

Plan Description (Continued)

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	**27,658**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. .Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' Fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

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

	LEOFF Plan 1	LEOFF Plan 2
Employer *	0.16 %	5.24% **
Employee	0.00 %	8.46%
State	N/A	3.38%

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for ports and universities is 8.62%.

Note 6 – Pension Plans (Continued)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 (Continued)

Funding Policy (Continued)

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

	LEOFF Plan 1	LEOFF Plan 2
2012	-	-
2011	-	-
2010	-	-
2009	-	-
2008	-	-
2007	-	4,372
2006	-	4,998
2005	-	4,092
2004	-	3,818
2003	-	3,541
2002		3,157

Note 7 – Risk Management

Hugh Wood, Inc. has placed the Port's insurance coverage with a host of underwriters for the policy period September 1, 2012 - August 31, 2013. The Port believes it has adequate insurance coverage in place to protect the Port. Coverage includes:

General Liaiblity - Starr Indemnity	$ 5 Million Limit
Excess Liability - Starr Indemnity	$ 9 Million Limit
Property Insurance - AXIS	$ 15 Million Limit ($ 250,000 deductible)
Aviation Liability - ACE	$ 20 Million Limit

The Port has elected not to insure a host of airport buildings that are old and of nominal value.

Note 8 – Long-Term Debt

The Port issues general obligation and/or revenue bonds to finance the purchase of land and buildings and acquisition or construction of buildings. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. The Port is also liable for notes that were entered into for the purchase of land and buildings. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

Note 8 – Long-Term Debt (Continued)

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Beginning Balance January 1, 2012	Amount of Installment	Ending Balance December 31, 2012
LTGO Ref. Bonds 1999 Series C - Airport Terminal	2015	3% - 4.2%	2,130,000	15,000	2,115,000
LTGO Bonds 2010 Series B -Airport Terminal	2019	2% - 3 %	1,615,000	390,000	1,225,000
LTGO Series A 2007 - Burbank Water System	2021	4.40%	525,000	0	525,000
CERB Loan 2005 - Key Technology Building	2025	1.68%	680,497	43,520	636,977

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Principal	Interest
2013	$ 454,251	$ 158,059
2014	$ 469,994	$ 144,865
2015	$ 480,750	$ 131,209
2016	$ 531,519	$ 117,241
2017	$ 552,300	$ 96,817
2018 -2022	$ 1,853,693	$ 175,709
2023 - 2027	$ 159,470	$ 5,388

The revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Beginning Balance January 1, 2012	Amount of Installment	Ending Balance December 31, 2012
Revenue Bonds 2005 - Key Technology	2014	3.55% - 5.625%	255,000	80,000	175,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2013	$ 85,000	$ 9,844
2014	$ 90,000	$ 5,063

Note 8 – Long-Term Debt (Continued)

Other Revenue debts currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Beginning Balance January 1, 2012	Amount of Installment	Ending Balance December 31, 2012
Installment Debt - Columbia View Water System	2014	1.50%	83,300	27,767	55,533
CERB Loan 2006 - Railex Project	2026	2.00%	800,000	46,260	753,741

Other Revenue debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2013	$ 74,952	$ 15,908
2014	$ 75,896	$ 14,548
2015	$ 49,092	$ 13,168
2016	$ 50,074	$ 12,187
2017	$ 51,075	$ 11,185
2018 - 2022	$ 271,113	$ 40,189
2023 -2027	$ 237,071	$ 10,750

Note 9 – Restricted Net Position

The Port's statement of net position indicates $584,326 of restricted net position. See Note 1 for a detailed listing.

Note 10 – Contingencies

The Port has recorded in its financial statements, all material liabilities; there are no material contingent liabilities to record. In the opinion of management, the Port's insurance policies and/or self-insurance reserves 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 request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The Port's management believes that such disallowances, if any, will be immaterial.

Note 11 – Segment Information

The Port operates its industrial areas and the airport district area as separate enterprises, which are primarily financed by user charges. The financial data for the year ended December 31, 2012, for these facilities are as follows:

	Port	Airport	Elimination	Total
Current Assets	$ 10,527,580	$ 1,657,605	$ (1,286)	$ 12,183,899
Capital Assets	$ 32,445,105	$ 26,697,278	$ -	$ 59,142,383
Other Assets	$ 354,443	$ 9,387	$ (147,000)	$ 216,830
Total Assets	$ 43,327,128	$ 28,364,270	$ (148,286)	$ 71,543,112
Current Liabilities	$ 756,604	$ 173,951	$ (1,286)	$ 929,269
Long-Term Liabilities:				
General Obligation Debt	$ 4,047,726	$ -	$ -	$ 4,047,726
Revenue Debt and Other Debt	$ 824,321	$ 147,000	$ (147,000)	$ 824,321
Employee Leave	$ 207,920	$ 104,197	$ -	$ 312,117
Unearned Revenue	$ -	$ 489,267	$ -	$ 489,267
Total Long-Term Liabilities	$ 5,079,967	$ 740,464	$ (147,000)	$ 5,673,431
Total Liabilities	$ 5,836,571	$ 914,415	$ (295,286)	$ 6,602,700
Net Position:				
Net Investment in Capital Assets	$ 26,958,855	$ 26,697,278	$ -	$ 53,656,133
Restricted	$ 95,059	$ 489,267	$ -	$ 584,326
Unrestricted	$ 10,436,643	$ 263,310	$ -	$ 10,699,953
Total Net Position	$ 37,490,557	$ 27,449,855	$ -	$ 64,940,412
Total Operating Revenues	$ 1,588,795	$ 2,909,387	$ -	$ 4,498,182
Operating Expenses Before Depreciation	$ 1,747,710	$ 2,398,337	$ -	$ 4,146,047
Depreciation Expense	$ 1,360,201	$ 1,683,415	$ -	$ 3,043,616
Operating Income (Loss)	$ (1,519,116)	$ (1,172,365)	$ -	$ (2,691,481)
Tax Revenues	$ 1,847,287	$ -	$ -	$ 1,847,287
Other Nonoperating Revenue, Net of Expenses	$ 4,007,703	$ 63,330	$ -	$ 4,071,033
Current Capital Contributions:				
Capital Grants	$ 55,447	$ 1,602,770	$ -	$ 1,658,217
Transfers	$ (373,163)	$ 373,163	$ -	$ -
Increase (Decrease) in Net Position	$ 4,018,159	$ 866,896	$ -	$ 4,885,055
Net Position, Beginning of Period	$ 33,472,398	$ 26,582,959	$ -	$ 60,055,357
Net Position, End of Period	$ 37,490,557	$ 27,449,855	$ -	$ 64,940,412
Cash Flows From Operating Activities	$ 561,199	$ 594,516	$ -	$ 1,155,715
Cash Flows From Noncapital Financing Activities	$ 1,930,275	$ (82,988)	$ -	$ 1,847,287
Cash Flows From Capital and Related Financing Activities	$ 2,654,946	$ (399,676)	$ -	$ 2,255,270
Cash Flows From Investing Activities	$ 23,417	$ 14,364	$ -	$ 37,781
Cash and Cash Equivalents, Beginning of Year	$ 5,185,795	$ 1,437,212	$ -	$ 6,623,007
Cash and Cash Equivalents, End of Year	$ 10,355,631	$ 1,563,429	$ -	$ 11,919,060

Note 12 – Other Disclosures

Prior Period Adjustments

The Port changed their recording keeping of their Fixed Assets in 2012. The new software allowed the Port to complete a thorough exam of all the assets. During the annual internal review of the assets, discrepancies were noted.

- The Port purchased Land in 1994 for $550,000, but reported land cost was mistakenly reported as $1,045,000 by accounting firm who managed the Port's fixed assets at the time. This asset is referred to as the BTU Other Land (asset #163). It appears the accounting firm included option payments received by the Port of $489,890, well costs of $250,000 and income of $157,751, in their land cost calculation. The Port and accounting firm were not able to provide documentation supporting how the firm arrived at the $1,045,000 land value.
- In 2006, the Port sold 23.5 acres of the BTU land with a cost basis of $114,040 and the cost basis should have been $70,436.08.
- In 2010, the Port double booked the same asset (BTU Land for $500,000).
- In 2008, the Port capitalized the income from Sale of property to Columbia School District for $141,875.26.
- In 1998, the Port capitalized building purchased under land. The total buildings categorized under land were $190,000 with back depreciation of $65,363.34.

The prior period adjustment to the land account made to the beginning balance is as follows:

Land Asset Account - Prior Period Adjustments	Original Value	Revised Value	Difference
Dodd Road Industrial Park			
BTU Land Purchase - 183.5 acres	$ 1,045,000.00	$ 550,000.00	$ (495,000.00)
BTU Land Sale - 23.5 acres	$ (114,040.00)	$ (70,436.08)	$ 43,603.92
BTU Land - Double booked asset	$ 500,000.00	$ -	$ (500,000.00)
Total Dodd Rd Industrial Land Adjustment	$ 1,430,960.00	$ 479,563.92	$ (951,396.08)
Burbank Business Park			
Land Sale	$ (141,875.26)	$ -	$ 141,875.26
Total Burbank Business Land Adjustment	$ (141,875.26)	$ -	$ 141,875.26
Burbank Industrial Park			
Land/Building Purchase	$ 301,773.55	$ 111,773.55	$ (190,000.00)
Total Burbank Industrial Land Adjustment	$ 301,773.55	$ 111,773.55	$ (190,000.00)
Land Asset Total Prior Year Adjustment	**$ 1,732,733.55**	**$ 591,337.47**	**$ (999,520.82)**

The prior period adjustment for the building account is as follows:

Building Asset Account - Prior Period Adjustments	Original Value	Revised Value	Difference
Burbank Industrial Park			
Land/Building Purchase	$ -	$ 190,000.00	$ 190,000.00
Building Asset Total Prior Year Adjustment	**$ -**	**$ 190,000.00**	**$ 190,000.00**

Note 12 – Other Disclosures (Continued)

Prior Period Adjustments (Continued)

The prior period adjustment to the building accumulated depreciation account is as follows:

Building Accumulated Depreciation Asset Account - Prior Period Adjustments	Original Value	Revised Value	Difference
Burbank Industrial Park			
Land/Building Purchase	$ -	$ (65,363.34)	$ (65,363.34)
Building Accum. Dep. Total Prior Year Adjustment	**$ -**	**$ (65,363.34)**	**$ (65,363.34)**

The Port acquired a CERB loan for a Railex project in 2006. The loan accrued interest from July of 2007 to July of 2011 before the Port had to make any interest payments. The interest was accrued yearly and expensed in the correct periods. The first payment in 2011 was 80,000 for current year interest and the accrued interest. The accrued interest account should have been expensed at $64,000 in 2011 but the interest expense account was expensed instead.

The prior period adjustment to the accrued interest account is as follows:

Accrued Interest Liability Account - Prior Period Adjustments	Balance December 31, 2011	Balance January 1, 2012	Difference
Accrued Interest	**$ 72,000.00**	**$ 8,000.00**	**$ (64,000.00)**

The Port overbooked taxes receivable in 2011 by $11,093.88 because the 2012 tax levy was used to account for taxes receivable instead of the 2011 tax levy.

The prior period adjustment to the taxes receivable account is as follows:

Taxes Receivable Asset Account - Prior Period Adjustments	Balance December 31, 2011	Balance January 1, 2012	Difference
Taxes Receivable	**$ 124,157.57**	**$ 113,063.69**	**$ (11,093.88)**

Accounting and Reporting Changes

The Port reclassified WSDOT funds as Agency Funds. The Port manages 18 railroad grain cars for Washington State. In the past, the Statement of Net Position included WSDOT rail cars assets and liabilities. Given the facts and circumstances of cash amounts held for WSDOT, the Port decided it was best to present these amounts as an Agency fund rather than part of the Port's net position.

Note 12 – Other Disclosures (Continued)

Accounting and Reporting Changes (Continued)

The following table details the changes made to accounts previously reported to the Statement of Net Position:

WSDOT Account Changes - Prior Period Adjustments	Balance December 31, 2011	Balance January 1, 2012	Difference
Current Assets			
Restricted Assets			
Cash and Cash Equivalents	$ 518,624.41	$ 491,278.02	$ 27,346.39
Investments	$ 235,059.00	$ 95,059.00	$ 140,000.00
Interest Receivable	$ 103.99	$ -	$ 103.99
Current Liabilities			
Other Current Liabilities	$ (273,772.78)	$ (106,322.40)	$ (167,450.38)
WSDOT Total Prior Year Adjustment	**$ 480,014.62**	**$ 480,014.62**	**$ -**

Prior Period Adjustments Chart

	Balance December 31, 2011	Prior Period Adjustments Increases	Decreses	Balance January 1, 2012
Current Assets				
Restricted Assets:				
Cash and Cash Equivalents	$ 518,624.41		$ (27,346.39)	$ 491,278.02
Property Taxes Receivable, Net	$ 124,157.57		$ (11,094.31)	$ 113,063.26
Interest Receivable	$ 103.99		$ (103.99)	$ -
Noncurrent Assets				
Restricted Assets:				
Investments	$ 235,059.00		$ (140,000.00)	$ 95,059.00
Capital Assets, Not Being Depreciated				
Land	$ 14,571,983.71	$ 185,479.18	$ (1,185,000.00)	$ 13,572,462.89
Capital Assets, Being Depreciated				
Buildings	$ 31,656,261.16	$ 190,000.00		$ 31,846,261.16
Less Accumulated Depreciation For:				
Buildings	$ (13,274,895.67)	$ (65,363.34)		$ (13,340,259.01)
Current Liabilities				
Accrued Interest	$ 100,745.00		$ 64,000.00	$ 36,745.00
Other Current Liabilities	$ (273,772.78)		$ 167,450.38	$ (106,322.40)
Net Position	**$ 60,877,335.24**	**$ 310,115.84**	**$ (1,132,094.31)**	**$ 60,055,356.77**

Note 12 – Other Disclosures (Continued)

Other

The Port and Washington State own and operate a fleet of 36 railroad grain cars. The Port owns 18 of these cars and they are identified with the railroad markings of PCC 2001-PCC 2017. The State cars are identified with the railroad markings of PCC 1000-PCC 1017. The Port collects grain car shipping fees on both sets of grain cars and deposits revenues in separate accounts. The Port utilizes revenues collected to pay for maintenance expenses on each set of cars. Any excess revenue from the Port cars is deposited into a Port investment account. Any excess revenue generated from the State cars is held in an investment account by the Port. As of December 31, 2012, the Port was holding $176,111 in state grain car funds shown on the Agency Fund Statement.

On January 30, 2012, the Port sold to Columbia REA the Melrose Building Complex which encompasses three buildings totaling some 102,577 square feet and 10.562 acres of property for $5,330,416.

PORT OF WALLA WALLA
MCAG NO. 1764
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
DECEMBER 31, 2012

Schedule of Funding Progress

The Port of Walla Walla internally funds their LEOFF program paying for the members' medical expenses. It doesn't make monetary sense for the Port to hire an actuary since we only have two members on the plan.

Schedule of Employer Contributions

Schedule of Employer Contributions	Total amount of claims paid during the year of 2012
Port Contributions	$ 14,605

Notes to RSI

The Port has 2 individuals under their LEOFF program. There will be no more eligible members in the future.

PORT OF WALLA WALLA
MCAG NO. 1764
SCHEDULE 16 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED DECEMBER 31, 2012

1	2	3	4	5			6
				Expenditures			
Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Footnote Ref
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-27	$ -	$ 1,620	$ 1,620	1,2
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-28	$ -	$ 1,538,808	$ 1,538,808	1,2
Department of Homeland Security Transportation Security Administration	Law Enforcement Officer Agreement Program	97.075	HSTS0208HSLR 010	$ -	$ 22,614	$ 22,614	1,2
Department of Homeland Security Transportation Security Administration	Law Enforcement Officer Agreement Program	97.075	HSTS0213HSLR 755	$ -	$ 7,440	$ 7,440	1,2
Total Federal Awards Expended				$ -	$ 1,570,482	$ 1,570,482	

Note 1 - Basis of Accounting
This schedule is prepared on the same basis of accounting as the Port of Walla Walla's financial statements. The Port of Walla Walla uses a full accrual basis of accounting.

Note 2 - Program Costs
The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Port of Walla Walla's portion, are more than shown.

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.

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
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