Port of Washington

Annual Report

December 31, 2001

George Fox, CPA
2109 N. 27th St.
Tacoma, WA 98403
(360) 789-6900

Table of Contents

Annual Report

Port of Washington

MCAG No. XXXX

Submitted pursuant to RCW 43.09.230

to the

State Auditor's Office

For the Fiscal Year Ended December 31, 2001

Certified correct this 11th day of March, 2002
to the best of my knowledge and belief:

NAME:	George Fox, CPA
TITLE:	Port Auditor & Finance Director
PREPARED BY:	George Fox, CPA
PHONE:	(360) 789-6900

Management's Discussion and Analysis

Our discussion and analysis of the Port of Washington's financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2001. Please read it in conjunction with the Port's financial statements which begin on page 13.

The Port of Washington is a Special Purpose Municipal Government. Ports exist to build infrastructure and promote economic development within their districts. Ports are often, though not always, involved in transportation activities. The Port of Washington operates a Marine Terminal for receiving and shipping international cargoes, a Regional Airport for general and commercial aviation, a Marina and Boatworks for recreational boating on the Puget Sound, and several industrial properties and an Industrial Park to support private business activities.

The Port of Washington was created in 1920 by a vote of the citizens of the Port District. The district encompasses all of Howell County, Washington. The Port is a special purpose government entity that owns land, industrial and commercial property, a marina, an airport, and a marine terminal. The Port's primary mission is economic development for the citizens of the district.

Three elected Port Commissioners administer the Port. In accordance with the laws of Washington, the Commissioners have appointed an Executive Director to manage Port operations, and a Port Finance Director to manage the Port's finances.

The Port rents its developed land to industrial and commercial users who then build suitable facilities on the land. The Port builds facilities for industrial and commercial purposes and rents completed facilities to tenants. Additionally, the Port acquires undeveloped land and adds infrastructure, such as roads and utilities, which facilitate industrial and commercial development on the land.

The Port maintains and develops the Washington Marina and Boat Launch facility, which is available for public use in launching boats into the Puget Sound. The facility consists of the marina with over 540 slips, a boat ramp, two restroom complexes, offices, and parking facilities.

The Port owns and operates the 75-acre Port of Washington Marine Terminal. The Terminal operates as a bulk, break-bulk, and container-capable operation. It has three berths with a total length of over 1600 feet of berth space, and has dredged shipping channels to a depth of 10 meters at mean low low water. The terminal also has two container cranes mounted on 50 ft. crane rails. The terminal is served by railroad tracks that tie into the BNSF and UP railroad operations.

The Port owns and operates the Washington Regional Airport. The airport and adjacent industrial park land together total over 1,500 acres in total area. The Port has developed infrastructure in the Washington Industrial Campus to allow industrial and commercial operations. Currently, there are over 75 tenants at the industrial park, providing employment for over 1,100 employees.

In addition to the Ports operating businesses, it is managing a complex and costly cleanup of environmental damages caused by several former tenants of the Port. The Environmental Remediation Site is currently contaminated with wood treating chemicals that seeped into the ground and into the Puget Sound.

Ports do their accounting and financial reporting for their activities very much like a business. Each of the Port's lines of businesses has its own income statement, manages its own operations, and plans its own capital investment strategies.

However, Ports are municipal governments. As such, Ports collect property tax revenues from the property owners within the Port district. These tax revenues go to support the capital investments made by the Port. Often, Ports will use tax revenues to pay for debt incurred to construct facilities that are used to support Port functions. Sometimes, Ports will also use a portion of their tax revenue to pay for operating expenses.

The Government Accounting Standards Board has prescribed a new method of financial reporting for all government entities. The Port of Washington is adopting this model of reporting this year. *Because the reporting format is different than in the past, comparative financial statements are not required under GASB 34. The Statement of Net Assets has been presented in comparative format for discussion purposes only.*

Issues Facing the Port

There are major issues facing the Port that could result in material changes in its financial position in the long term. Among those issues are:

1. Intense competition in the marine terminal line of business could result in further erosion of market share.
2. Population growth in the District will result in changes in land use from low-density and industrial purposes to higher density and residential or commercial purposes. This could result in changing the revenue mix of the Port's real property leasing line of business.
3. Private sector businesses compete with the Port for marina business. As the proportion of Port revenues changes to include more recreational boating related lines of business, this competition may result in either an erosion of market share or in politically motivated decision making that may or may not be in the best financial interest of the Port.

4. Private sector businesses compete with the Port for golf course business. As revenues from golf operations continue to increase, this competition may result in either an erosion of market share or in politically motivated decision making that may or may not be in the best financial interest of the Port.
5. Intensive investment in infrastructure is required to meet air safety initiatives at the Port's airport. While the federal government bears the majority of these costs, the Port will bear a share of the cost and will have to manage the disruptions in operations that they will cause.
6. The Port's debt portfolio consists entirely of long-term, fixed-rate instruments. Because of this structure, the debt portfolio is subject to significant interest rate risk.

Financial Highlights

- In 2001, the Port's overall business revenues continued to increase, going up $205,346, or 5.3% over 2000 business revenue levels.
- The Port's overall operating costs also increased in 2001, going up $494,389, or 7.8% over 2000 operating expense levels.
- The Port completed a major phase of an ongoing environmental remediation project in 2001, spending $4,749,515 to remove contaminated soils from Puget Sound and place them in a containment cell. Some of these costs are shown as a Non-Operating expense, and some are shown as a reduction in the Environmental Liability account on the Statement of Net Assets (Balance Sheet).
- The Port had overall Net Income of $786,389 in 2001.
- The Port borrowed $9,160,000 in 2001, to fund capital and capital-type projects, including relocation of the Airport's main runway, completion of the current phase of the Environmental Remediation Project, building three new docks at its Marina and adding shore-based infrastructure, completing the Port Plaza Park, and many other smaller projects. The borrowing increased the Port's asset base to $77,446,175, up $8,575,255 or 12.5% over 2000 levels.
- The Port's operating revenues were less than budgeted by $465,330, and the operating expenses were also less than budgeted by $455,555.
- The Port's net nonoperating cash flow was $8,265,020 more than budgeted, mostly because environmental costs were much lower than budgeted.

Using the Annual Report

This Report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Fund Assets (shown on pages 13 - 14 and 15) provide information about the activities of the Port as a whole, and present a longer-term view of the Port's finances.

The Port maintains separate funds of cash as required by certain resolutions or bond covenants. The "one proprietary fund" model is used in this report in compliance with the rules of GASB 34 which provide that *separately issued debt* and *separately classified assets* are needed in order for a separate fund to exist. None of the Port's separate cash funds meet this definition. Therefore, for purposes of this report, all of the Port's transactions are reported in one fund.

The Port maintains a subsidiary corporation, called the Port of Washington Economic Development Corporation (the POO-EDC) established pursuant to State law for the purpose of issuing Industrial Development Revenue Bonds. The financial information for this subsidiary corporation is also consolidated with other Port financial information in this report.

The Port does not maintain any trustee or agency funds.

Reporting the Port as a Whole

Our analysis of the Port as a whole begins on page 13. Understanding the financial trend of the Port begins with understanding the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. Looking at these two reports, you should be able to determine if the Port is better off financially this year than it was in the past.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets include all of the assets and liabilities of the Port using the accrual basis of accounting, which is the method used by most private sector businesses. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid by the Port.

These two reports show the Port's net assets and the changes in them during 2001. The Port's net assets are its assets minus its liabilities. This is one measure of financial position of the Port. Over time, increases or decreases in the Port's net assets are a good indicator of whether its financial strength is improving or deteriorating. You need to consider other factors not shown on these two financial reports in order to assess the Port's true financial condition. Factors such as changes in the Port's tax base and the condition of the Port's asset base are also important when assessing the overall financial condition of the Port.

Fund Financial Statements

When the Port charges someone to use property or Port services, the revenue earned is like a businesses revenue. The Statement of Revenues, Expenses, and Changes in Net Fund Assets is the Port's fund based financial statement.

Since the Port accounts for all of its transactions in one Proprietary Fund, the Port's fund based financial statement is also its entity-wide governmental financial statement as required by GASB 34 - 38.

The Port as a Whole

The discussion below explains the Ports overall financial situation for the year ended 12/31/2001.

The Port's Net Assets increased $786,389, or 2% in 2001. The net increase equals the 2001 net income of the port.

The Port maintained a capital asset base of $57,953,358 as of 12/31/2001. The book value of the asset base declined $119,146 in 2001 as a result of depreciation charged against revenue in the year. The Port expenses about $2,000,000 per year in depreciation charges. When the Port invests less than that amount in new capital assets in a year, the book value of its asset base declines. The rate of new capital investment increased in 2001 compared to 2000. In 2000, the Port's asset base declined $538,273.

The Port borrowed $9,160,000 in 2001 to fund new capital asset projects. As of 12/31/2001, the Port had $8,227,957 in bond funds available for new capital projects. The Port invests unused bond proceeds in short term investments. The Port has a capital plan calling for over $20,0000,000 in capital projects over the next six years.

The Port's current liabilities as of 12/31/2001 are debts that the Port will repay in 2002. The total current liabilities nearly doubled from $1,360,542 to $2,628,908 in 2001. Accounts payable at the year end were much higher than normal because of the large environmental remediation project underway at that time. This, plus the increase in bond principal and interest payable in 2002, explains the entire increase. Current liabilities will be in the $1.8 million range for the foreseeable future.

The Port's long term liabilities also increased in 2001, largely as a result of more bond debt issued last year. General Obligation bonds outstanding at 12/31/2001 amounted to $29,005,000, an increase of $8,650,000 in 2001. Accrued environmental costs decreased as a result of a reassessment of future costs of environmental remediation. $2,505,444 of 2001 environmental costs were charged against the liability account to reduce the balance to $2,075,567, which management believes will be sufficient to cover the Port's share of the remaining cleanup costs.

This image cannot currently be displayed.

The Port has booked the acquisition of all assets at historical costs on its Statement of Net Assets. The Port has received certain grants in aid of construction or acquisition of certain of its assets, including its airport. The contributions received from other governments for these assets are shown as "Invested in Capital Assets" account on the Port's Statement of Net Assets.

The Port books depreciation expense for these contributed assets over the useful life of the asset. Useful lives of airport runways can exceed 40 years. Since the Port did not pay for these assets, the depreciation expense is credited back to net income. If the expense were not credited against income, the Port would be overstating its cost of capital assets since it did not pay for these assets. The depreciation is effectively charged against and directly reduces the "Invested in Capital Assets" account each year.

This image cannot currently be displayed.

Contacting the Port's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact George Fox, CPA, Port Auditor, at 2109 N. 27th St, Tacoma, WA 98403 or by phone at (360) 789-6900.

PORT OF WASHINGTON
Statement of Net Assets
December 31, 2001 and 2000

	2001	
2000		
Current Assets		
Cash, Unrestricted	$7,596,079	$6,730,980
Cash, Restricted	123,183	92,674
Cash, Restricted Bond Fund	8,227,957	1,024,293
Accounts Receivable, Net	126,842	202,012
Grants Receivable	1,367,831	712,096
Property Taxes Receivable	163,816	152,833
Prepaid Expenses	179,074	107,233
Settlement Receivable – Current Portion	79,209	74,726
Total Current Assets	17,863,991	9,096,847
Capital Assets		
Land and Land Rights	24,675,382	24,206,811
Buildings, Structures & Improvements	30,576,108	30,494,652
Machinery & Equipment	9,761,490	9,660,817
Other Improvements	14,766,847	14,650,892
Construction in Progress	1,994,738	904,332
Total Capital Assets	81,774,565	79,917,504
Less: Accumulated Depreciation	(23,821,206)	(21,845,000)
Net Capital Assets	57,953,358	58,072,504
Non-Current Assets		
Bond Discount & Issue Costs, Net	487,725	366,875
Other Investments	24,399	24,399
Organization Costs, Net	849,396	963,781
Settlement Receivable	267,305	346,515
Total Non-Current Assets	1,628,826	1,701,570
Total Assets	$77,446,175	$68,870,920

PORT OF WASHINGTON
Statement of Net Assets
December 31, 2001 and 2000

	2001	**2000**
Current Liabilities		
Accounts Payable	$1,025,287	$380,681
Contracts Payable	36,998	18,818
Bond Interest Payable	123,183	92,673
Other Current Liabilities	433,643	365,871
Current Portion of G.O. Bonds	1,000,000	510,000
Total Current Liabilities	2,619,111	1,368,042
Long-Term Liabilities		
General Obligation Bonds	29,005,000	20,355,000
Deferred Revenues	393,240	0
Environmental Liabilities	2,075,567	4,581,011
Total Long-Term Liabilities	31,473,807	24,936,011
Total Liabilities	34,092,918	26,304,053
Net Assets		
Invested by Port in Capital Assets, Net of Related Debt	37,176,315	38,741,797
Restricted for Future Capital Investment	8,227,957	1,024,293
Unrestricted Net Assets	(2,051,016)	2,800,777
Total Net Assets	43,353,256	42,566,867
Total Liabilities & Net Assets	$77,446,175	$68,870,920

PORT OF WASHINGTON

Statement of Revenues, Expenses, and Changes in Fund Net Assets

OPTION 1 – SHOWING MULTIPLE FUNDS

For the Year Ended December 31, 2001

	Enterprise Funds (Major Funds) .				Non-	
	Airport	Marina & Boatworks	Marine Terminal	Property Leasing	Major Funds	Total .
Operating Revenues:						
Charges for services	471,971	1,373,355	773,962	1,279,123	218,889	4,117,300
Miscellaneous	-	-	-	549,655	355,646	905,301
Total Operating Revenues	471,971	1,373,355	773,962	1,828,778	574,535	5,022,601
Operating Expenses:						
Personal services	242,188	374,221	643,830	219,878	1,104,438	2,584,555
Contractual services	61,998	36,575	-	21,813	643,764	764,150
Repairs & maintenance	63,505	115,353	92,396	30,185	61,084	362,523
Other supplies & expenses	165,827	171,129	165,277	94,486	496,249	680,786
Depreciation	165,000	259,457	1,087,606	283,681	180,462	1,976,206
Total Operating Expenses		698,518	956,735	1,989,109	650,043	2,485,997
6,780,402						
Operating income (loss)	(226,547)	416,620	(1,215,147)	1,178,735	(1,911,462)	(1,757,801)
Nonoperating Revenues (expenses):						
Interest & investment revenue		-	-	-	-	622,611
622,611						
Tax revenue – property tax	-	-	-	-	3,467,283	3,467,283
Miscellaneous revenue	-	-	-	-	-	-
Interest expense	-	-	-	-	(1,351,038)	(1,351,038)
Environmental expense, net		-	-	-	-	(76,749)
(76,749)						
Miscellaneous expense	(117,917)	-	-	-	-	(117,917)
Total nonoperating revenue (expenses)	(117,917)	-	-	-	2,662,107	2,544,190
Income (loss) before Contributions & transfers	(344,464)	416,620	(1,215,147)	1,178,735	750,645	786,389
Capital Contributions	-	-	-	-	-	-
Transfers in (out)	344,464	(416,620)	1,215,147	(1,178,735)	35,744	-
Change in net assets	-	-	-	-	-	786,389
Total net assets – beginning						42,566,867
Total net assets – ending						$43,353,256

PORT OF WASHINGTON
Statement of Revenues, Expenses, and Changes in Fund Net Assets
OPTION 2 – SHOWING ONE FUND
For the Year Ended December 31, 2001

Operating Revenues:		
Airport operations	471,971	
Marina & boatworks operations	1,373,355	
Marine terminal operations	773,962	
Property lease/rental operations	1,279,123	
Golf operations	218,889	
General & administrative	-	
Other revenue	272,937	
Total Operating Revenues	4,390,237	
Operating Expenses:		
General Operations	1,857,486	
Maintenance	872,058	
General & administrative	2,074,642	
Depreciation	1,976,206	
Other expense	-	
Total Operating Expenses	6,780,392	
Operating Income (Loss)	(2,390,155)	
Nonoperating Revenues (expenses):		
Investment income	622,611	
Taxes levied for		
General purposes	3,467,283	
Gain (loss) on asset disposition	632,354	
Interest expense		(1,351,038)
Election expense		(141,749)
Environmental expense, net	(76,749)	
Other nonoperating revenue (expense)		23,832
Total nonoperating revenue (expense)		3,176,544
Income (loss) before contributions,		
Other revenues & expenses	786,389	
Capital Contributions		-
Extraordinary items	-	
Special items	-	
Increase (decrease) in net assets	786,389	
Net assets – beginning	42,566,867	
Net assets – ending		$43,353,256

PORT OF WASHINGTON
Statement of Cash Flows

For the Year Ended December 31, 2001

Cash Flows from Operating Activities		
Receipts from Customers	$ 4,117,300	
Payments to Suppliers	(2,219,631)	
Payments to Employees	(2,584,555)	
Changes in non-cash accts.	1,049,184	
Other receipts (payments)	905,291	
Net cash from operations	1,267,586	
Cash Flows from Noncapital Financing		
Environmental Grants	2,161,661	
Reduction in Environmental liability	(2,505,444)	
Environmental Costs - Direct	(2,238,410)	
Net cash from noncapital financing-	(2,582,193)	
Cash Flows from Capital & Related Financing Activities		
Proceeds from capital debt	9,160,000	
Capital contributions (taxes collected)	3,467,283	
Purchase of capital assets	(1,857,061)	
Principal paid on capital debt	(510,000)	
Interest paid on capital debt	(1,351,038)	
Other receipts (payments)	(117,917)	
Net cash (used) by capital & related financing		8,791,267
Cash Flows from Investing Activities		
Proceeds from investments		
Interest & capital dividends	622,611	
Net cash flows from investing		622,611
Net increase in cash	8,099,271	
Balance of Cash – 1/1/01	7,487,947	
Balance of Cash – 12/31/01	15,947,219	
Reconciliation of operating (loss) to Net cash provided by operations:		
Operating (loss)	(1,757,801)	
Adjustments:		
Depreciation	1,976,206	
Change in short-term assets		(667,872)
Change in other assets	72,744	
Change in short-term liabilities	1,251,069	
Deferred Revenue	393,240	
Net Cash provided by operations		1,267,586

Note 1 – Basis of Accounting and Reporting

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

The Port's transactions are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with a particular fund are included on their statements of net assets (or Statement of Net Assets). Their reported fund equity (total net assets) is segregated into invested in capital assets, net of related debt, restricted, and unrestricted net assets. The Port of Washington discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities. All of the Port of Washington's operations are accounted for in one proprietary fund.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

The Port of Washington accounts for most centralized services in "general and administrative" cost centers. These costs are not allocated to or charged against business operations. Therefore, the information presented about the lines of business revenues and expenditures in the Statement of Revenues, Expenses, and Changes in Net Assets are direct revenues and expenses of a particular line of business.

The Port of Washington accounts for all business operating revenues and expenses as "operating revenues and expenses." The Port's business operating revenues are derived from its marine terminal, its airport, its property leasing program, and its marina and boatworks lines of business. Operating expenses include the direct expenses of operating these lines of business and the general and administrative expenses of the Port as a whole, including the cost of executive management, administration, marketing, accounting, engineering, finance, legal, insurance, taxes paid, and direct and indirect costs of the Port Commission itself.

The Port of Washington accounts for all other revenue and expense as non-operating revenue or expense. Items included as non-operating revenue and expense are property and other tax receipts, bond interest expense and bond principal issues, redemptions, and repayments, environmental remediation grant revenue and remediation expenses, and election expenses.

Cash and cash equivalents

See note 2.

Receivables

Taxes receivable consists of property taxes and related interest and penalties. Because such taxes are considered liens on property, no reserve for doubtful accounts has been established. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Accounts receivable that are written off are charged directly against earnings when they are determined by the proper Port official to be uncollectible. Use of this method does not result in a material difference from the reserve method required by generally accepted accounting principles.

Inventories

The Port of Washington maintains a small inventory of spare parts and office supplies. The amounts held in inventory are immaterial to the financial statements as a whole. Parts and supplies are expensed as purchased and no inventory of these items is maintained.

The Port of Washington maintains an inventory of golf supplies for resale at its Golf operation. Although these inventories are also immaterial to the financial statements as a whole, there is a valid business reason for tracking these items. Therefore, all inventories held for resale are valued using the FIFO method, which approximates market value.

Restricted Assets & Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. In accordance with bond resolutions, and related agreements, separate restricted accounts are required to be established for bond payment. While these separate accounts do exist, because the Port uses a consolidated presentation format using one Proprietary Fund for these financial statements, the current portion of restricted liabilities are shown as accrued interest payable and the long term portion of these restricted liabilities are shown as long-term liabilities. Specific debt service requirements are described in Note 7.

The restricted fund for asset purchases holds the proceeds of certain bonds issued in 2001, and proceeds from certain land sales, which are restricted for the purpose of acquiring additional land or building additional asset base for the Port, pursuant to Commission Resolution.

Capital assets

See Note 4.

Other Assets

Costs related to the sale of bonds are deferred and amortized over the lives of the various bonds.

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 a liability when the time off is earned by an employee. Vacation pay, which is earned based on an employee's length of service to the Port, may be accumulated up to a maximum of 320 hours. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement, death, or upon the approval of the employee's supervisor (subject to policy restrictions). Sick leave may accumulate up to a maximum of 1,200 hours. Accrued sick leave is payable upon an employee taking a sick day or at a rate of 25% or 30% of the total current value of the accrual upon the employees resignation or retirement, if certain length of service conditions are met.

Long-term debt

See Note 9.

Deferred Credits

See Note 11.

Use of estimates

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

Leases

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

Note 2 – Cash & Cash Equivalents

On June 28, 2000, the Port Commission passed Resolution 00-88, appointing its own Port Treasurer. The Treasurer maintains the accounts of the Port at the Bank of Howell County, an approved Public Depositary Institution. The Port invests its surplus cash according to a Policy also adopted by the Commission in Resolution 00-89 on June 28, 2000, that uses three criteria to determine what investments are appropriate. The three criteria, in order of importance, are: safety of principal; liquidity of the investment; and overall return on investment.

The Port Treasurer was holding a total of $15,947,219 in cash and short-term investments at December 31, 2001. The investments are held in accounts for the Port with John Smith & Sons, a national broker with a local office in the Port district.

The Port Treasurer uses a strategy of investing surplus funds in a mix of investment instruments, including: short and intermediate term bonds of the US Government or its Agencies that may be traded or held to maturity, certificates of deposit at regulated Washington banks, and mutual funds of US Government Securities managed by professional fund managers.

For purposes of the Statement of Net Assets and Statement of Cash Flows in 2001, the Port considers all of its investments (including restricted assets) to be cash equivalents. The 2001 investment strategy required certain securities to be reflected on the Statement of Net Assets as investments valued at fair market value.

The Port's deposits in banks are covered by Federal depository insurance. The Port's investment accounts at John Smith & Sons are covered by insurance issued by the SIPC, a Federal agency. The Port of Washington Treasurer is the custodian for all Port funds.

Prior to November, 2000, the Port had invested its funds with the Howell County Treasurer.

All long-term investments are stated at fair market value in accordance with SGAS 31. Unrealized gains and losses are recognized on the books as of the Statement of Net Assets date.

The Port's investments are categorized to give an indication of the risk assumed at year end. Category 1 includes cash in banks and investments that are either insured or registered, or securities held by the Port or by its agent in the Port's name. Category 2 includes investments that are neither insured or registered, with securities held by the counterparty's trust department or agent in the Port's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty in the Port's name or held by the counterparty's trust department or agent not in the Port's name.

Category 1	$ 1,435,686
Category 2	14,511,533
Category 3	0
Total	$15,947,219

Pursuant to bond resolutions adopted by the Port Commission, various special purpose funds have been established to designate cash and investments for bond debt service. At December 31, restricted assets, cash and investments are as follows:

Restricted cash	$ 123,183
Restricted investments	$8,227,957
Total restricted funds	$8,351,140

Note 3 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The county treasurer distributes collections by the 10th day of the month following collection to the Port. A revaluation of all property is required every four years.

Property Tax Calendar

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

Property taxes are recorded as revenues in January of the year for which the tax is levied, in accordance with GASB 33. Current and past-due taxes are shown as a receivable. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. State law allows for the sale of property for failure to pay taxes.

The Port is permitted by law to levy up to $.45 per $1,000 of assessed valuation for general governmental services. The rate is limited by the Washington State Constitution and Washington State law, RCW 84.55.010. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2001 was $.2848 per $1,000 on a total assessed valuation of $12,174,448,305 for a total regular levy of $3,467,283.

Note 4 – Capital Assets and Depreciation

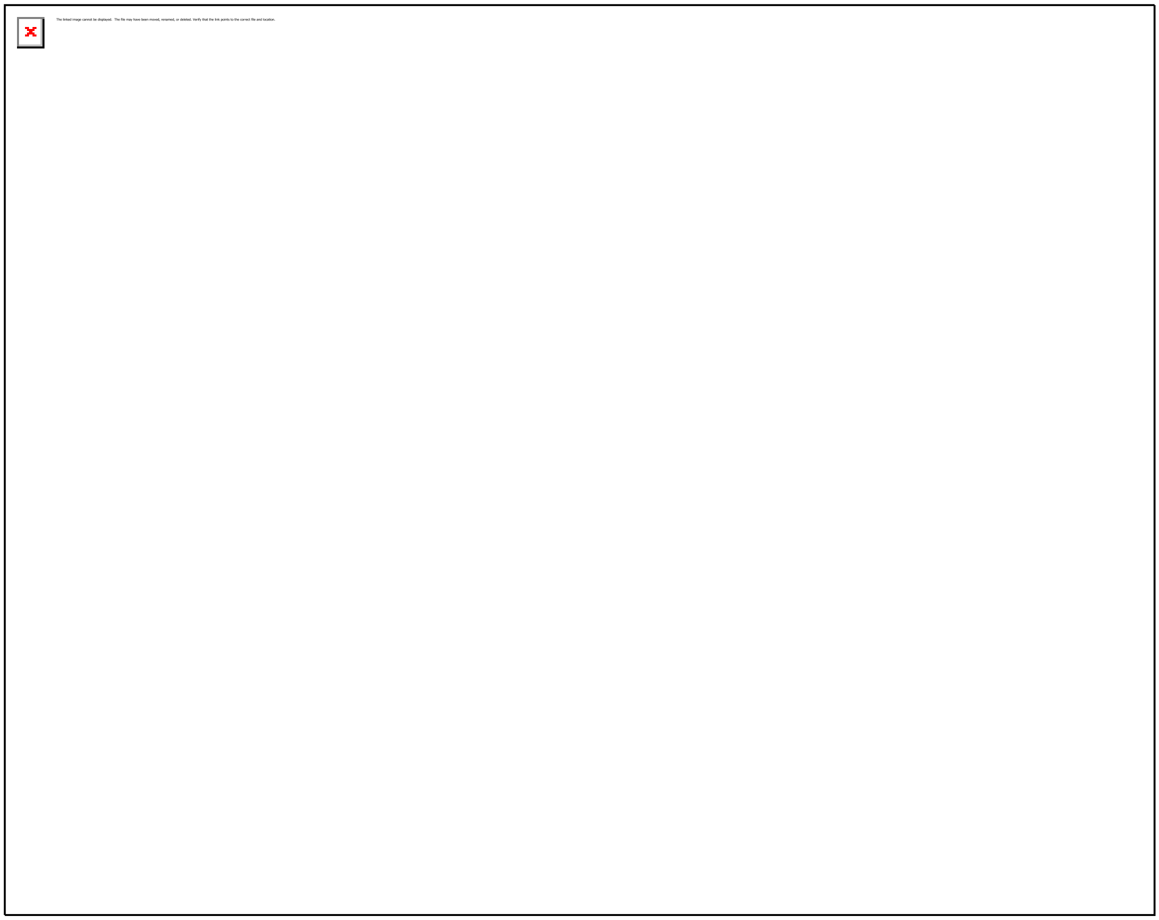
Major expenses (defined by the Port as those in excess of $5,000) for capital assets, including capital leases and improvements that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost. The 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.

Interest on funds used during construction is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the Statement of Revenues, Expenses, and Changes in Fund Net Assets and to treat such cost in the same manner as construction labor and material costs. During 2001, the Port capitalized $244,603 of net interest costs.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method. Buildings and improvements are assigned lives of 20-30 years; equipment 3-7 years; and furniture and fixtures 3-10 years.

The Port has expended funds on active construction projects as of December 31, 2001 of $1,994,738. The projects are being funded from cash reserves.



.

Note 5 – Stewardship, Compliance and Accountability

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

Note 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 defined benefit public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a comprehensive annual financial report containing historical trend information and may be obtained from the Department of Retirement Systems. Communications Unit, PO Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Standard Statement 27, Accounting for Pensions by State and Local Government Employers.

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

Plan Description

PERS is a cost-sharing multiple employer defined benefit pension plan. Membership in the plan includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certificated employees of school districts; and employees of local government. The PERS system includes two plans. Participants who joined the system by September 30, 1977 are Plan 1 members.

Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of 5 years of eligible service.

Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of 2 percent per year of service of the average final compensation. Plan 2 retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates needed to fully amortize the total costs of the plan. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the Director of the Department of Retirement Systems based on recommendations by the Office of the State Actuary and continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine 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, 2001, were:

	Employer	Employee
PERS Plan I	4.67%	6.0%
PERS Plan II	2.15%	0.9%

Both the Port and the employees made required contributions. The Port's required contributions for the year ended December 31, 2001 were:

PERS I	$55,213
PERS II	$75,812
Total	$131,025

Note 7 – Risk Management

The Port maintains insurance against most normal hazards for commercial automobile, property loss, and general liability.

The Port is member of the Washington Governmental Entity Pool (WGEP) Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint firing or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act.

The Pool was formed July 10, 1987. The Pool now services cities, counties, health districts, port districts, water and irrigation districts, fire districts, mosquito control districts, library districts, air pollution districts, area on aging, regional mental healthy support networks, and conservation districts. Presently, over 200 governments are members of the WGEP, including over 30 port districts.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide risk management services and other related services. The Pool provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket from using current Statement of Values. Boiler and machinery coverage is included on a blanket limit of $30 million for all members. The pool self-insures for employee dishonesty up to a liability limit of $500,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a "per occurrence" $250,000 deductible on liability loss, $25,000 deductible on property loss, and $2,500 deductible on boiler and machinery loss. The member is responsible for the first $1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining $249,000 on liability losses, $24,000 on property loss, $1,500 deductible on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the

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

The contract requires each new member to remain in the pool for a minimum of one (1) year, and must give notice 60 days before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement. No special assessment for a prior period has been required since the inception of the WGEP.

The Pool is fully funded by its member participants. Claims are filed by members with the Washington Governmental Entity Pool, and are administered in house.

Note 8 – Short-Term Debt

The Port of Washington does not issue short-term debt. Its short-term liabilities consist of current maturities of long-term debt.

Beginning Balance of Short-Term Debt	New Short-Term Debt	Redemptions or Repayments	Ending Balance of Short-Term Debt
510,000	1,000,000	(510,000)	1,000,000

Note 9 – Long Term Debt & Leases

The Port of Washington issues general obligation bonds to finance the purchase and construction of capital assets. General obligation bonds currently outstanding are as follows:

Obligation	Original Amount	12/31/01 Balance	Rate of Interest	Maturity	Current Portion
1996-A G.O. Bond	4,690,000	3,590,000	3.65-5.25	2014	210,000
1996-B G.O. Bond	2,025,000	1,560,000	3.65-5.25	2014	90,000
1996-C G.O. Bond	3,335,000	2,795,000	5.73-6.86	2005	370,000
1996-D G.O. Bond	3,210,000	3,210,000	5.10-5.60	2005	200,000
1998-A G.O. Bond	4,920,000	4,920,000	4.70-5.05	2016	50,000
1998-B G.O. Bond	4,280,000	4,280,000	4.70-5.05	2013	30,000
2001 G.O. Bond	9,160,000	9,160,000	3.95-5.45	2020	50,000

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

Year ended December 31	Proprietary Activities	
	Principal	Interest
2002	1,100,000	1,685,231
2003	1,125,000	1,655,850
2004	1,155,000	1,645,955
2005	1,195,000	1,630,200
2006	1,325,000	1,585,100
2007-2011	7,900,000	3,367,905
2012-2016	7,850,000	2,928,642
2017-2020	7,865,000	2,607,202
Total	29,515,000	17,106,085

The Port of Washington has no revenue bonds currently outstanding.

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

At December 31, 2001, the Port of Washington has $123,183 available in sinking funds and reserves, although it is not required to provide such funds by bond indentures.

Refunded Debt

The Port of Washington has no refunded debt as of December 31, 2001.

Operating Leases

The Port of Washington leases several pieces of office equipment under noncancelable operating leases. The total cost for such leases was $8,355 for the year ended December 31, 2001. The future minimum lease payments for these leases are as follows:

Year ended December 31	Amount
2002	$7,355
2003	$3,225
2004	-
2005	-

2006	-
2007-2011	-
2012-2016	-
2016-2020	-
Total	$10,580

Capital Leases

The Port of Washington has no capital leases as of December 31, 2001.

Long-Term Debt Summary for 2001

Beginning Balance of Long-Term Debt	New Long-Term Debt	Redemptions or Repayments	Ending Balance of Long-Term Debt
20,355,000	9,160,000	(510,000)	29,005,000

Note 10 – Contingencies & Litigation

The Port is one of the parties liable for the environmental clean-up of contaminated property located in the vicinity of the Environmental Remediation site within the Port District. The Port has retained an environmental engineering firm, and special environmental legal counsel for the project. The Port successfully petitioned for the transfer of site jurisdiction from the Environmental Protection Agency to the Washington State Department of Ecology.

The actual cost of cleanup is not determinable at this time. However, a budget for cleanup costs has been prepared by the Port's environmental engineer and has been reviewed by the Washington Department of Ecology. This budget is the basis for the estimates shown on the nonoperating section of the Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Statement of Net Assets for the year ended 12/31/2001.

The State of Washington, and other grantors, have been cooperating with the Port to fund the cleanup action. In the opinion of Port management, it is likely that the entire cost of the cleanup will be paid with funds from the State of Washington, or covered by the amount shown as an environmental liability on the Statement of Net Assets as of December 31, 2001.

In 2000 the Department of Ecology awarded a $3.9 million grant to the Port of Washington for the current phase of the cleanup. Proceeds from the grant are received on a cost reimbursement basis and recognized as non-operating revenue as expenses are incurred.

Environmental clean-up costs consist of consulting, attorney and contractors directly involved with the remediation process. These costs are recognized as non-operating expenses as incurred. Indirect costs associated with remediation efforts are included in general and administrative expenses.

Over the last 8 years, the Port has received insurance proceeds as partial settlement for environmental clean-up costs. The insurance settlements were recognized as non-operating income in the period they were received. The proceeds are, in the opinion of legal counsel, Proprietary Funds of the Port.

Note 11 – Deferred Debits (Or Credits)

In 2001, the Port received money for rent payments in advance of the due date covering all amounts due under a land lease for the entire term of the lease. The Port intends to recognize these deferred revenues ratably over the remaining term of the lease.

Note 12 – Joint Ventures

The Port of Washington is not a party to any joint venture.

Note 13 – Postemployment benefits other than pension benefit

The Port of Washington does not offer any postemployment benefits except for pension benefits.

Note 14 – Other Disclosures

A. Prior Period Adjustments

The Port of Washington is not making any such adjustment in these financial statements

B. Accounting and Reporting Changes

See BARS Manual for Language

C. Major Receivables

The Port of Washington does not have a high concentration of receivables from a single customer. The highest balance of accounts receivable from a single customer at 12/31/01 was $35,443, or 8% of outstanding receivables or less than .75% of revenues in 2001.

D. Related Party Transactions

The Port of Washington did not enter into any related party transactions in 2001.

E. Extraordinary/Special Items

The Port of Washington had no Extraordinary or Special items in 2001. An extraordinary event is one that is beyond the control of management (e.g.: an earthquake). A special item is one that is within the control of management (e.g.: discontinuing a line of business).

F. Subsequent Events

The Port of Washington had no material post-Statement of Net Assets events.

G. Other

Required Supplementary Information

Budgetary Reconciliation & Information for 2002

The Port is required by state law to set an annual expense budget. Ports are unlike most other governments, because Ports do not rely upon the property tax levy (or user fees and other taxes) as their sole source of revenue for operations. The Port operates four separate businesses that each generate revenue and incur expense. Therefore, it is highly unusual for a Port to adopt supplemental budgets or make adjustments to an adopted budget. Rather, the original budget as adopted usually remains in place, unless overall expense levels are expected to be exceeded in a budget year. Port districts are required by state law to use the calendar year as their fiscal year.

In 2001, the Port did adopt a supplemental budget for operations regarding the golf center. This supplemental budget is presented together with the original approved budget in these financial statements. When the Port adopts a supplemental budget, it follows the procedures outlined in state law regarding public notice, and formally adopts the revised budget by a recorded vote of the Port Commission.

The Port's adopted expense budget for 2001, together with the final actual amounts recognized as revenue and expense, are presented in the chart on the next page:

The major variances in the budget overall are:

- Marine Terminal Revenue – overall business volume was not sufficient to meet budgeted amounts.
- Peninsula Properties Revenue – Warehouse #2 stood empty most of 2001. This old building is difficult to lease.
- Golf Center Revenue – First year of operations, budget was based on insufficient data. Also, the net project was delayed until very late in 2001.
- Airport Expense – unexpected damages from failure to collect on an insurance matter. Expect to receive a settlement in 2002.
- Environmental Remediation Expense – $2,505,444 of the current period expense was charged against the Environmental Liability Account in order to reduce the balance in that account to the proper level required by uncompleted tasks. Much of the remaining variance results from the project carrying over into FY 2002.
- Bond Interest Expense – The interest expense increased because the Port issued new debt in 2001.
- Election Expense – no amounts were budgeted, however the cost was very high in 2001. The County bills the Port for its share of election costs.
- Overall, the Port was well under its authorized budget expense levels in 2001.

For 2002, the Port's budget calls for business revenues to increase by $216,242, or 5.3%, to $4,334,648. Port operating expenses are budgeted to increase by $389,998, or 5.7% to $7,257,958. The Port expects to generate Net Nonoperating revenue of $2,936,064, and total net income of $12,754 in 2002.

The largest 2002 budget assumptions concern the environmental remediation project. If the project costs are underestimated, the Port could easily have a net loss in 2002. However, if the project costs are less than expected or grants received are more than expected, then the Port will have a larger net income than the budget projects.

Schedule 04 - Detail of Revenues & Other Sources
For Year Ended December 31, 2001

BARS Revenue Account No.	Description	Actual Revenue
610.00	Airport Revenue	471,971
620.00	Marina & Boatworks Revenue	1,373,355
630.00	Marine Terminal Revenue	773,962
660.00	Property Leasing Revenue	1,828,778
699.00	Other Revenue	574,535
600.00	Total Operating Revenues	5,022,601
693.00	Operating Grants	2,586,124
699.10	Interest Income	622,611
699.20	Ad Valorem Taxes Collected	3,467,283
690.00	Total Non-operating Revenues	6,676,018
600.00	Total Revenues	$ 11,698,619

MCAG No. XXXX **Port of Washington**

Schedule 05 -Detail of Expenses & Other Uses
For Year Ended December 31, 2001

This image cannot currently be displayed.

MCAG No. XXXX **Port of Washington**

Schedule 08 - Schedule of Real and Personal Property Taxes
(All Tax Supported Funds)
For Year Ended December 31, 2001

Taxes Receivable 1/1/2001	Tax Rate $/1,000	Taxes Levied Report Year	Taxes Collected	Tax Adjustment Increases	Tax Adjustment Decreases	Taxes Receivable 12/31/2001
44,876	0.3106	3,467,283	3,455,138	-	-	57,021

MCAG No. XXXX **Port of Washington**

Schedule 09 - Schedule of Long-Term Debt - G.O. Debt Schedule
For Year Ended December 31, 2001

This image cannot currently be displayed.

MCAG No. XXXX **Port of Washington**

Schedule 09 - Schedule of Long-Term Debt - Revenue Debt Schedule
For Year Ended December 31, 2001

This image cannot currently be displayed.

Port of Washington

Schedule 10 - Schedule of Limitation of Indebtedness
As of December 31, 2001

This image cannot currently be displayed.

Port of Washington

Schedule of Limitation of Indebtedness
As of December 31, 2001

This image cannot currently be displayed.

MCAG No. XXXX **Port of Washington**

Schedule 16 - Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2001

MCAG No. XXXX **Port of Washington**

Schedule 16 - Schedule of State and Local Financial Assistance
For the Year Ended December 31, 2001

MCAG No. XXXX **Port of Washington**

Schedule 19 - Schedule of Labor Relations Consultant(s)
For the Year Ended December 31, 2001

Has your government engaged labor relations consultants? ____ Yes
__X__ No

Signed: ______________________________

G. Fox, Finance Director

The remainder of Schedule 19 is not applicable.