Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Port of Pasco

Franklin County

Audit Period

January 1, 2008 through December 31, 2008

Report No. 1001979

Issue Date

August 24, 2009

WASHINGTON

BRIAN SONNTAG

STATE AUDITOR

Washington State Auditor
Brian Sonntag

August 24, 2009

Board of Commissioners
Port of Pasco
Pasco, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Pasco'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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388
FAX (360) 753-0646 • http://www.sao.wa.gov

Table of Contents

Port of Pasco
Franklin County
January 1, 2008 through December 31, 2008

Federal Summary

Port of Pasco
Franklin County
January 1, 2008 through December 31, 2008

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

FINANCIAL STATEMENTS

An unqualified 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 significant 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 significant deficiencies that we consider to be material weaknesses.

We issued an unqualified 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 OMB Circular A-133.

Identification of Major Programs:

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

CFDA No.	Program Title
20.205	Highway Planning and Construction

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

The Port qualified as a low-risk auditee under OMB Circular A-133.

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

Port of Pasco
Franklin County
January 1, 2008 through December 31, 2008

Board of Commissioners
Port of Pasco
Pasco, Washington

We have audited the basic financial statements of the Port of Pasco, Franklin County, Washington, as of and for the year ended December 31, 2008, and have issued our report thereon dated July 31, 2009. The prior year partial comparative information has been derived from the Port's 2007 basic financial statements that we issued our report thereon dated September 11, 2008.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Port's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Port's financial statements that is more than inconsequential will not be prevented or detected by the Port's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 31, 2009

Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Port of Pasco
Franklin County
January 1, 2008 through December 31, 2008

Board of Commissioners
Port of Pasco
Pasco, Washington

COMPLIANCE

We have audited the compliance of the Port of Pasco, Franklin 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 are applicable to its major federal program for the year ended December 31, 2008. The Port's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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. Our audit does not provide a legal determination on the Port's compliance with those requirements.

In our opinion, the Port complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Port's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 31, 2009

Independent Auditor's Report on Financial Statements

Port of Pasco
Franklin County
January 1, 2008 through December 31, 2008

Board of Commissioners
Port of Pasco
Pasco, Washington

We have audited the accompanying basic financial statements of the Port of Pasco, Franklin County, Washington, as of and for the year ended December 31, 2008, as listed on page 9. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Port's 2007 financial statements and, in our report dated September 11, 2008, we expressed unqualified opinions on the basic financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Pasco, as of December 31, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Port's financial statements for the year ended December 31, 2007, from which such partial information was derived.

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

The management's discussion and analysis on pages 10 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 31, 2009

Financial Section

Port of Pasco
Franklin County
January 1, 2008 through December 31, 2008

REQUIRED SUPPLEMENTAL INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis

Our discussion and analysis of the Port of Pasco's financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the Port's financial statements which begin immediately following this narrative.

The Port of Pasco is a local municipal corporation formed by the voters inhabiting approximately 80% of Franklin County in 1940. The Port Commission, the governing body, is made up of three local residents who are elected to a six-year term, with one of the nonpartisan positions up for election every two years. The Port's primary mission is economic development for the citizens of the district. 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 or rent suitable facilities on the land. Additionally, the Port acquires undeveloped land and adds infrastructure, such as roads and utilities, which facilitate industrial and commercial development of the land.

The Tri-Cities Airport continues to serve the communities of southeastern Washington and northeastern Oregon with direct commercial air service to Seattle, Portland, Salt Lake City, Denver and Las Vegas. Passenger boarding's remained constant with calendar year 2007 with similar sales in parking, car rentals down 3% and restaurant concessions up 8%. New service in 2009 will begin to Minneapolis and San Francisco.

This past winter, airlines used the newly constructed deicing pad. Chemicals used for deicing and anti-icing of aircraft are collected at a single drain point and stored in a large underground holding tank where the contents can then be pumped to the domestic sewage system, trucked off-site or remain on-site. Environmental hazards are being minimized with the deicing facility as anticipated winter mitigation will be required from all airports conducting winter operations.

Two ground leases in the Business Center for hangars were signed and construction of the facilities was completed in 2008. A third lease is currently in negotiation Two other general aviation/business hangars on the general aviation ramp/industrial park side of the airport are underway filling a void for upper end aircraft storage.

In preparation for the FAA Airport Improvement Program funding year, resources will be spent on replacing an airport crash rescue fire fighting vehicle, construction of a taxi-lane to accommodate hangars in the Business Center and an employee training system for required FAA programs. The airport will also be requesting qualifications for updating the airport master plan. In 2009, Stimulus money of $8.7 million was awarded for runway reconstruction and additional apron work.

The Port acquired 250 acres of industrial land for the Pasco Processing Center. This center is intended to serve as an industrial park specifically for major food processing companies. An on going joint marketing effort between the City of Pasco, the Port and the Tri-City Industrial Development Council (TRIDEC) is underway to attract new companies to the center. There are already three major food processing tenants employing 700 FTEs with three supporting industries on board. Of this 250 acre parcel, a 65-acre tract of land is currently divided into 12 building sites of varying sizes. The sites offer opportunities for manufacturing, warehousing, packaging, distribution, goods and services providers. The first tenant in the Park is Teton Gold. The projected cost to install the infrastructure is $700,000 and will be installed and paid through land sales.

The Port is also actively planning for development of its waterfront along the Columbia River in Pasco, a 200-acre parcel of ground known as the Riverfront Business Park. Flexibility will be a key feature of the Business Park which will offer professional offices and corporate headquarters along the waterfront, and “flex space” buildings at the non-waterfront areas integrating offices, light manufacturing and assembly areas, research facilities and testing laboratories, and storage and warehouse space. Smaller incubator buildings are planned for the remaining areas of the Business Park, and may include copy services, professional services, restaurants, meeting rooms, or other support services. Along with the buildings, a high priority is being placed on public access and enjoyment of the waterfront. Pedestrian trails, an amphitheatre, a viewing dock and grassy slopes are all public amenities being considered for the Business Park. The first building at the Business Park is currently being designed, with construction expected to begin in early 2010.

In addition to the Port’s operating businesses, it is managing a complex and costly clean-up of environmental damages caused by several former tenants of the Port. The Environmental Remediation Site is currently contaminated with petroleum and its by products that seeped into the ground. This contingency is covered in Note 8 of the Financial Statements.

The Port of Pasco is a municipal government. As such, the Port collects property tax revenues from the property owners within the Port district. These tax revenues are used to pay debt service on its General Obligation bonds and support the capital investments made by the Port.

The Government Accounting Standards Board has prescribed a new method of financial reporting for all government entities. The Port of Pasco has adopted this model for reporting starting in 2003.

Issues Facing the Port of Pasco

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

Marine Security pending requirements would result in an increase in vehicle inspection resulting to higher costs associated with these inspections. The Port is currently without a marine operator. We are currently negotiating to resume barge service at the Port. As a result of two major shipping companies who no longer are calling at the Port of Portland, barging of commodities (mostly agricultural) decreased substantially and shifted to trucks and rail primarily to Tacoma. The Port of Pasco’s rail is too light, too antiquated, and lacking proper design for today’s rail cars. With the future use of rail increasing, the Port’s rail requires replacement. Design is now complete for a rail system that will handle the growing traffic. The total cost of the project is $9.4 million. A $5.4 million grant has been received from the State. Senator Mike Hewitt, with the support from other regional Legislators, secured these funds for the first phase of the project. The Port has also secured an $880,000 federal grant for the second phase of the project and is currently working with Senators Murray and Cantwell, Representative Doc Hastings and their staffs with a request for up to $2 million for the remaining phases of the rail development.

Federal reimbursement of Law Enforcement Officers, who man the Screening Point at the airport, is on a year to year contract based on the government's ability to get funding. This additional expense of approximately $135,000 would become the Port's responsibility. The Port of Pasco received additional 5 year reimbursable funding through a cooperative agreement with Department of Homeland Security grant in June 2007. However this additional funding is not expected to fully reimburse the Port for its additional expenses.

There is uncertainty in the continuation funding program and level funding for airports across the nation, as Congress must authorize the collection of program dollars and authorize the Airport Improvement Program funding.

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 operation that they will cause.

The Port is presently involved in a soils clean-up proceeding with the Department of Ecology along with other parties at the marine terminal. The Port's current liability is estimated at $1.6 million. In the opinion of management, the Port's exposure may be covered in whole or in part in combination of PLP (potentially liable party) settlement dollars and government grants. The Port has booked this as a liability in its statements.

Financial Highlights

In 2008 the Port's overall operating revenues decreased by $ 158,280 or 2.2% over 2007 business revenue levels.

The Port's overall operating costs increased in 2008, going up $ 463,635 or 4.8% over 2007 operating expense levels.

The Port had overall Net Income of $ 3,843,857 in 2008. Included in this amount is $871,636 in federal and state grants and $3,339,255 in insurance proceeds.

The Port's operating revenues exceeded budgeted revenue by $ 246,165 and the operating expenses were under budget by $ 94,861 resulting in net operating income of $341,026 over budget.

Financial Analysis of the Port of Pasco

Net Assets: the following table summarizes the ending balances in Net Assets between December 31 2006, December 31, 2007 and December 31, 2008 and the net change in years 2007 and 2008.

	2006	2007	2008	Net Change
Current Assets	11,037,320	8,711,647	13,067,080	4,355,434
Capital Assets	48,690,814	58,345,168	57,430,473	(914,695)
	-----------------------	---------------------	------------------	----------------
Total Assets	59,728,134	67,056,815	70,497,553	3,440,739
Long Term Debt	5,390,239	5,048,992	4,693,703	(355,289)
Other Liabilities	4,604,968	3,830,648	3,782,819	(47,829)
	-----------------------	---------------------	------------------	-----------------
Total Liabilities	9,995,207	8,879,640	8,476,522	(403,118)
Total Net Assets	49,732,927	58,177,177	62,021,034	3,843,857

The Following table summarizes the Income from Operations between fiscal years:

	2006	2007	2008	Net Change
Airport Operations	3,718,187	4,131,007	4,057,221	(73,786)
Marine Terminal Operations	266,328	124,676	143,381	18,705
Property lease/rental operations	2,430,494	2,710,762	2,607,563	(103,199)
	-------------------	-------------------	------------------	------------
Total Operating Revenue	6,415,009	6,966,445	6,808,165	(158,279)
General Operations expenses	4,504,869	4,606,458	4,800,937	194,479
Depreciation	3,149,441	3,359,092	3,596,057	236,965
Maintenance	301,880	304,692	328,889	24,197
G & A	1,068,644	1,249,819	1,257,813	7,993
	-------------------	-------------------	------------------	-------------
Total Expenses	9,024,834	9,520,062	9,983,697	463,635
Net Operations	(2,609,825)	(2,553,618)	(3,175,531)	(621,914)
Non-Operating Income (Loss)	2,335,690	2,487,789	6,147,753	3,659,964
Capital Grants Received	2,077,629	8,510,169	871,636	(7,638,533)
Change in Net Assets	1,803,494	8,444,340	3,843,857	(4,600,483)

Budgets and Future Events

Each November the Port of Pasco Commissioners adopts a consolidated annual operating budget for the ensuing year.

Capital Asset and Debt Administration

Capital Assets

This table summarizes the year end balances in capital assets for 2006, 2007 and 2008 and the change in the year end balances for December 31, 2007 and 2008. See Note 4.

	2006	2007	2008	Net Change
Land	3,159,494	4,986,855	4,154,669	(832,186)
Buildings	82,259,750	89,159,379	95,970,061	6,810,682
Equipment	4,497,973	4,327,238	4,184,832	(142,407)
CWIP	10,883,726	14,921,487	11,347,761	(3,573,726)
Acumm. Deprec.	(52,110,129)	(55,049,791)	(58,226,849)	(3,177,058)
	48,690,814	58,345,168	57,430,473	(914,695)

Debt

At December 31, 2008 the Port of Pasco owed $4,825,000 in Long Term General Obligation Bonds and $ 223,991 on a CERB loan for infrastructure at the Pasco Processing Center. See Note 7.

Using the Annual Report

This report consists of a series of financials statements. The Statement of Net Assets (formerly known as the Comparative Balance Sheet) and the Statement of Revenues, Expenses, and changes in Net Fund Assets (formerly known as the Income Statement) (shown on pages immediately following) provide information about the activities of the Port as a whole, and present a longer-term view of the Port's finances.

The Port of Pasco operates using one fund. All of the Port's operations are accounted for in the General Fund. Special restricted funds are as follows: the Passenger Facilities Charge fund, the TCA Customs share fund, retirement fund and the Self Insurance fund.

GASB 34 requires a separate fund financial statement for each Port fund that is supported by a separate debt issue. The Port bond issues are general in nature, and all are "General Obligation" bonds of the Port. Therefore all the assets and liabilities of the Port are presented in one Proprietary Fund. No allocation of assets or liabilities to particular lines of business is required by GASB and no such information is presented in these financial statements.

A separate Revenues, Expenditures, and Changes in Net Fund Balances is also presented in GASB 34 and In BARS formats for your consideration.

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

The Port of Pasco has two trust accounts, one for Self Insurance and one for the Executive Director's additional compensation.

Reporting the Port as a Whole

Our analysis of the Port as a whole begins on the following page. Understanding the financial trend of the Port begins with understanding the Statement of 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.

GASB 34 requires certain changes to be made to the format of the Statement of Net Assets, and requires that the statement itself be named the "Statement of Net Assets". For consistency, the Port will continue to present the information in a Statement of Net Assets format, as allowed by GASB 34 Paragraph 30.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Fund 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 to them during 2008. 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.

Since the Port is a Special Purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance, and public meeting expense. However, all of these expenses of the Port are also reported in the Proprietary Fund. This "one fund" model is used in compliance with the rules of GASB 34 which state that separately issued debt and separately classified assets are needed in order for a separate fund to exist. Most of these governmental costs are contained in the General and Administrative cost centers shown on the Port's financial reports.

Fund Financial Statements

The Port's Fund is a "Proprietary Fund" as defined in GASB 34. When the Port charges someone to use property or Port services, the revenue earned is like a business revenue – hence the name "proprietary" fund. The Statement of Revenues, Expenses, and Changes in Net Fund Assets shown above is the Port's fund based financial statement.

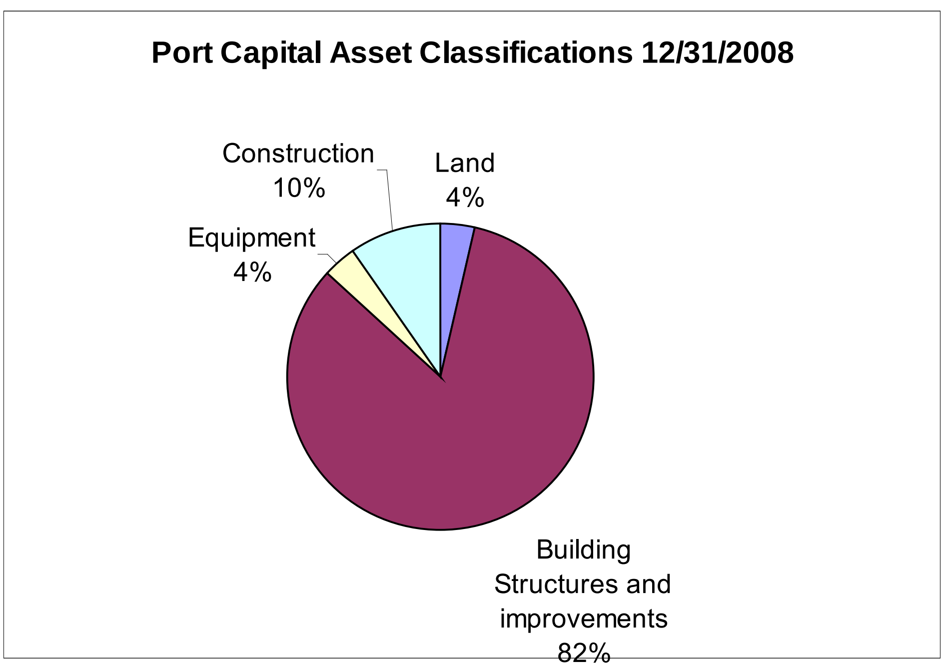
The Port as a Whole

The Port accounts for its activities in a single Proprietary Fund. The discussion below explains the Port's overall financial situation for the year ending 12/31/2008.

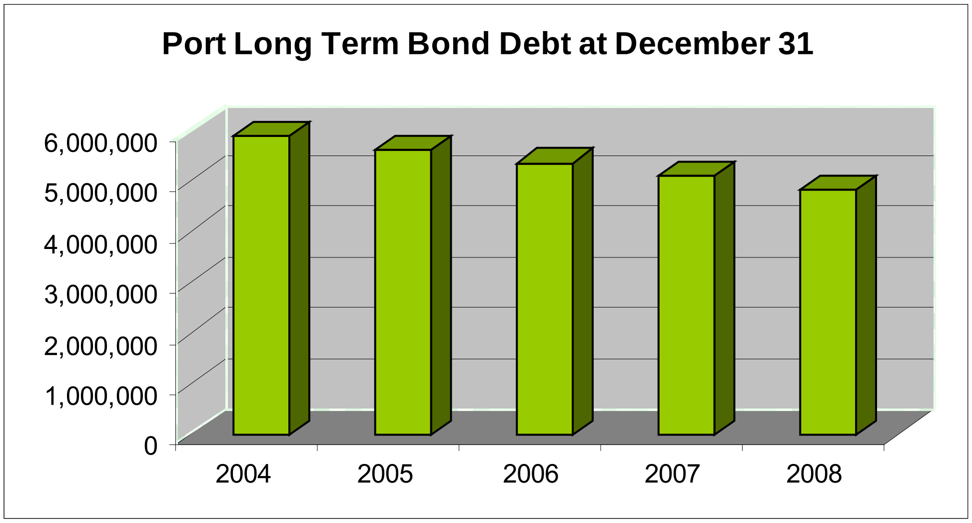
The Port's Assets decreased by $914,695 as of 12/31/2008. The book value of the asset base decreased $914,695 in 2008 as a result of improvements to the airport, railway upgrades at Big Pasco Industrial Center and other improvements and the write off of obsolete equipment, net of depreciation. The Port's expenses about $3,600,000 per year in depreciation charges. When the Port invests more than that amount in new capital assets in a year, the book value of the asset base increases. The rate of new capital investment decreased in 2008 compared to 2007.

The Port borrowed $3,125,000 in 2004 to reimburse the Port General fund for previous capital projects and to fund new capital asset projects. The Port invests unused bond proceeds in short term investments. The Port has a capital plan calling for over $28,000,000 in capital projects over the next two years. $11,800,000 is expected in grants and the remainder from tax revenues, insurance proceeds, port funds or proceeds from sale of property.

The Port's current liabilities as of 12/31/2008 are debts the Port will repay in 2009. The total current liabilities increased from $1,981,376 to $2,052,502. Accounts payable at the year end were lower by $162,618. This was due mainly to lower accounts payable on construction projects.



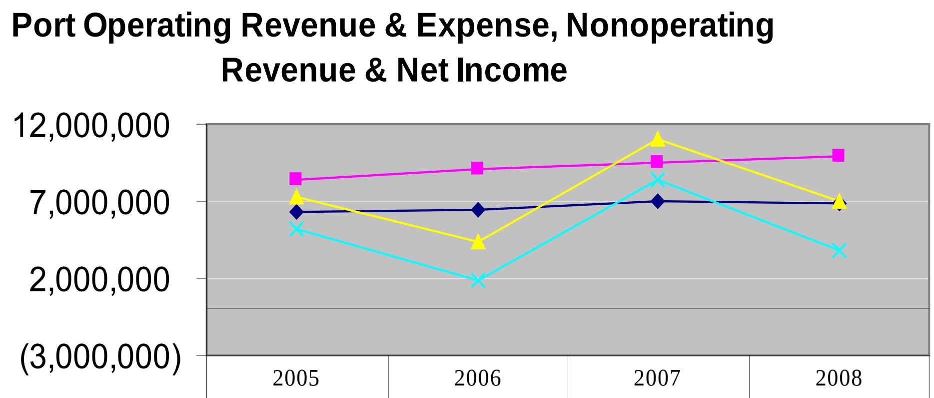
The Port's long term liabilities decreased in 2008, due to repayment of debt and no new issues. Long term liabilities at year end were $6,424,018 a decrease of $ 474,244 from $6,898,263 in 2007. Accrued environmental costs decreased as a result of reassessment of future costs of environmental remediation. The balance in that account is $1,612,110 which along with continued Environmental operating grants, management believes will be sufficient to cover the Port's share of the remaining clean-up costs.



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 "Contributions" under the Non-operating Revenue and Expenses on the Port's Statement of Revenues and Expenses. The Port books depreciation expenses for these contributed assets over the useful life of the asset.

GASB 34 requires the Port to capitalize and depreciate all of the assets owned or controlled by the Port, which is done on these financial statements.

The Port had operating revenues of $6,808,165 in 2008, a 2.2% decrease over 2007. The Port's operating expenses were $9,983,697 up 4.8% from 2007. The Port has a net operating gain of $3,843,857 which includes $871,636 in capital grants and $3,339,255 in insurance proceeds. Expenses include depreciation expense.



	2005	2006	2007	2008
Operating Revenue	6,335,321	6,415,009	6,966,445	6,808,165
Operating Expenses	8,437,920	9,024,833	9,520,062	9,983,697
Non-Operating Revenue (Net)	7,322,503	4,413,319	10,997,958	7,019,389
Net Gain or (Loss)	5,219,904	1,803,494	8,444,341	3,843,857

All the functions of the Port are considered in the numbers shown above, including the cost of general government of the Port district. The capital assets of the Port are also reported in the Port's Proprietary Fund. Unexpended bond proceeds and bonded debt amounts are also reported in the Proprietary Fund.

This aggregation of all of the Port's assets and operations into a single fund is a result of the Port's being a special purpose government that operates as a proprietary fund. Larger Ports may have to report some of their activities in separate funds.

Contacting the Port's Financial Management

The 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 Linda M. O'Brien, Director of Finance and Administration, at PO Box 769, Pasco,WA 99301 or by phone (509) 547-3378.

Port of Pasco
COMPARATIVE STATEMENT OF NET ASSETS
December 31, 2008 and 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and Cash Equivalents	1,740,784	1,034,315
Investments	9,661,958	3,987,309
Restricted Assets		
Cash and cash equivalents	0	0
Investments	830,915	2,830,410
Interest receivable		
Other	40,619	64,668
Taxes receivable	66,387	65,711
Accounts receivables	196,306	347,665
(net of allowance for uncollectibles)	(165,957)	(163,605)
Interest Receivable	0	0
Notes Receivable	0	0
Due from other governments	81,281	51,030
Inventory	3,898	3,898
Prepaids	59,218	81,689
Other Current Assets	551,671	408,556
Total Current Assets	13,067,080	8,711,647
NONCURRENT ASSETS		
Capital Assets not being depreciated		
Land	4,154,669	4,986,855
Construction in Progress	11,347,761	14,921,487
Capital Assets being depreciated		
Property	95,970,061	89,159,379
Equipment	4,184,832	4,327,238
Less: Accumulated depreciation	(58,226,849)	(55,049,791)
Total Net Capital Assets	57,430,473	58,345,168
Other Noncurrent Assets		
TOTAL ASSETS	70,497,553	67,056,815

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF PASCO
COMPARATIVE STATEMENT OF NET ASSETS
December 31, 2008 and 2007

LIABILITIES AND EQUITY

	12/31/2008	12/31/2007
CURRENT LIABILITIES:		
Warrants payable	307,534	156,459
Accounts payable	285,396	448,014
Accrued interest payable	71,127	74,713
Deferred revenue/credits	472,505	541,184
Current portion of Long-term Obligations	355,289	341,248
Discount on Current portion of Bonds	(11,800)	(11,800)
Other Current Liabilities	572,451	431,558
Total Current Liabilities	2,052,503	1,981,376
NON-CURRENT LIABILITIES		
General Obligation Bonds	4,540,000	4,825,000
Revenue Bonds	0	0
Discount of Long-term Obligations	(111,830)	(123,631)
Employee leave benefits	230,036	212,623
Other Long-term Liabilities	153,703	223,992
Soils Clean-up Liability	1,612,110	1,760,279
Total Long-Term Liabilities	6,424,019	6,898,264
Total Liabilities	8,476,522	8,879,640
NET ASSETS		
Invested in capital assets, net of related debt	52,381,481	52,954,929
Restricted	830,915	2,830,410
Unrestricted	8,808,638	2,391,837
	62,021,034	58,177,177
TOTAL NET ASSETS	70,497,554	67,056,815

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF PASCO
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2008 and 2007

	12/31/2008	12/31/2007
OPERATING REVENUES		
Airport Operations	4,057,221	4,131,007
Marine terminal operations	143,381	124,676
Property lease/rental operations	2,607,563	2,710,762
Total Operating Revenues	6,808,165	6,966,445
OPERATING EXPENSES:		
General operations	4,800,937	4,606,458
Maintenance	328,889	304,692
General and administrative	1,257,813	1,249,819
Depreciation	3,596,057	3,359,092
Total Operating Expenses	9,983,697	9,520,062
Income (Loss) from Operations	(3,175,531)	(2,553,618)
NONOPERATING REVENUES (EXPENSES)		
Interest income	178,274	205,704
Taxes levied for Port operations-general Purpose	1,476,929	1,403,308
Insurance Settlement	3,339,255	45,382
Gain(loss) on disposal of assets	371,515	
Interest expense	(250,073)	(263,800)
Passenger Facility Charges	1,000,188	1,050,150
Election Expenses	(23,223)	
Other nonoperating revenues (expenses)	54,888	47,045
Total Nonoperating Revenues (expenses)	6,147,753	2,487,789
Extraordinary/Special Items		
Capital Contributions	871,636	3,848,286
Capital Contributions not resulting in Capital Assets		4,701,721
SR 397 Overpass*	0	(39,838)
Net Income	3,843,857	8,444,340
NET INCOME (LOSS) TRANSFERRED TO NET ASSETS	3,843,857	8,444,340
Net Assets-beginning of period	58,177,177	49,732,837
Prior Period Adjustments		
Net Assets -end of period	62,021,034	58,177,177

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

* This Asset not in the custody of the Port of Pasco

PORT OF PASCO
STATEMENT OF CASH FLOWS
for the Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	6,924,474
Payments to suppliers	3,366,141
Payments to employees	3,230,216

Net cash provided by operating activities	328,117
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Operating subsidies and receipt of taxes	1,519,579
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	0
Capital contributions & Insurance proceeds	5,211,079
Purchases of capital assets	(3,520,418)
Proceeds from Sale of Capital Assets	1,204,833
Principal paid on capital debt	(341,248)
Interest paid on capital debt	(250,073)

Net cash provided by capital and related financing activities	2,304,173
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	
Interest and dividends	205,704

Net cash provided by investing activities	205,704
Net increase in cash and cash equivalents	4,357,574
Balances-beginning of the year	7,916,702
Balances -end of the year	12,274,276

Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities

Operating income (loss)	(3,175,531)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Other income and expenses-net	55,035
Depreciation expense	3,596,057
Changes in assets and liabilities:	
Receivables, net	123,461
Account and other payables	(114,401)
Accrued expenses	(8,336)
Soils Clean-up Liability	(148,169)

Net cash provided by operating activities	328,117

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

These notes are an integral part of the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Pasco was incorporated in 1940 and operates under the laws of the State of Washington applicable to a political sub-division. The financial statements of the Port of Pasco have been prepared to conform with generally accepted accounting principles (GAAP) as applied to governments. The Port of Pasco has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 20, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments.* This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The Port of Pasco is a special purpose government and provided a shipping terminal, two industrial parks and an airport to the general public and is supported primarily through user charges.

The Port is governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has one blended component unit, see Note 12.

B. Basis of Accounting and Presentation

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 all liabilities associated with their activity are included on their Statement of Net Assets. Their reported fund equity is segregated into invested in capital assets, net of related debt, restricted and unrestricted net assets. Operating statements present increases and decreases in net total assets. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

The Port distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the Port are charges to customers for leasing Port property. The district also recognizes as operating revenue usage fees. Operating expenses for the Port include the cost of services, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Port has elected to follow subsequent private-sector guidance.

C. Assets, Liabilities and Equities

1. Equity in Pooled Cash and Investments

It is the Port of Pasco's policy to invest all temporary cash surpluses. At December 31, 2008 the treasurer was holding $9,661,958 in short-residual investments of surplus cash. This amount is classified on the balance sheet as Current Assets/Investments.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during (year) were approximately $ 9,700,000.

For the purposes of the Statement of Cash Flows, the district considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. See Note C 6.

2. Temporary Investments - See Note #2

3. Receivables

Taxes receivable consists 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.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

4. Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

5. Inventories

Inventories are valued by the FIFO method (which approximates the market value).

6. Restricted Assets and Liabilities

In accordance with bond resolutions, separate restricted accounts are required to be established.

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. The current portions of related liabilities are shown as *Payables from Restricted Assets.* Specific debt service reserve requirements are described in Note 7.

A new restricted account has been established for Passenger Facility Charges approved by the FAA on August 13, 1993, in accordance with section 158.29 of the code of Federal Regulations Part 158.

The Medical Self Insurance Trust was established in January 1997.

The restricted assets are composed of the following:

Special Assessments - Current	$ 805,581
Self Insurance Trust	$ 40,619
Retirement Trust	$ 25,334
Total Restricted Assets	$ 871,534

7. Capital Assets and Depreciation - See Note #4.

8. Other Property and Investments - See Note #2.

9. Other Assets and Debits there are no additional assets and debits

10. Custodial Accounts

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

11. Compensated Absences

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

Vacation pay, which may be accumulated up to 30 days, is payable upon resignation, retirement or death. Sick leave may accumulate indefinitely. Twenty-five (25) percent of outstanding sick leave is payable upon resignation, retirement or death.

12. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

13. Long-term Debt See Note #7.

14. Deferred Revenues/Credits

This account includes amounts recognized as receivables (assets) but not revenues because the revenue recognition criteria has not been met.

Other Credits

15. Contributed Capital See Note #14.

16. Fund Reserves and Designations

In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

Assets and liabilities shown as current in the accompanying balance sheets exclude current maturities on revenue bonds and accrued interest thereon because debt service funds provided for their payment.

NOTE 2 – DEPOSITS AND INVESTMENTS

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).

As required by state law, all investments of the Port's funds (except as noted below) are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities. At present they are invested in the State Treasurer's Investment Pool.

All temporary investments are stated at cost plus accrued interest, which approximates market value. Other property and investments are shown on the combined balance sheet at cost, net of amortized premium or discount. Investments of deferred compensation are stated at market value. These investments are comprised of current assets and restricted assets.

INVESTMENTS

As of December 31, 2008 the Port had the following investments:

Investment	Maturities	Fair Value
State investment pool		$11,073,991

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port of Pasco would not be able to recover the value of the investment or collateral securities. Of the Port of Pasco's total position of $11,073,991 in 2008, $0 is exposed to custodial credit risk because the investments are held for the Port of Pasco by the Franklin Country Treasurer.

NOTE 3 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

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

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible taxes 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 district may levy up to 45 cents per $1,000 of assessed valuation for general Port purposes. Washington Sate Constitution and Washington Sate Law, RCW 84.55.010, limit the rate. The district may also levy taxes at a lower rate.

The Port's regular levy for the year 2008 was $.382990 per $1,000 on an assessed valuation of $3,851,842,416 for a total regular levy of $1,475,217. In 2007 the regular tax levy was $1,396,122. The difference between taxes levied by the County Assessor and taxes certified by the County Treasurer on Schedule 8 differ due to supplements and cancellations.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Our capitalization threshold is $5,000 and the asset has a useful life of 2 or more years, except for personal computers, which are expensed. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical costs. For donated assets, where historical cost is not known, the estimated market value at time of acquisition is used.

The Port of Pasco 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 with 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 Port plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income).

During 2008, the Port of Pasco capitalized $0 of net interest costs for funds borrowed to finance the construction of capital assets. Interest costs of $ 0 were offset by interest income of $0.

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 3 to 40 years.

B. Capital assets activity for the year ended December 31, 2008 was as follows:

	Beginning Balance 1/1/08	Increases	Decreases	Ending Balance 12/31/08
Capital assets, not being depreciated:				
Land	$ 4,986,855	$ 0	$ 832,186	$ 4,154,669
Construction in Progress	$ 14,921,488	$ 3,383,842	$ 6,957,569	$ 11,347,761
Total Capital assets, not being depreciated	$ 19,908,343	$ 3,383,842	$ 7,789,755	$ 15,502,430
Capital assets, being depreciated:				
Buildings	$ 14,928,412	$ 7,043,902	$ 242,749	$ 21,729,565
Improvements other than buildings	$ 74,230,967	$ 9,529	$ 0	$ 74,240,496
Machinery and equipment	$ 4,327,238	$ 40,714	$ 183,121	$ 4,184,831
Other				
Total capital assets being depreciated	$ 93,486,617	$ 7,094,145	$ 425,870	$100,154,892
Less accumulated depreciation for:				
Buildings	$ 6,438,870	$ 0	$ 235,879	$ 6,202,991
Improvements other than buildings	$ 46,367,658	$ 3,368,955	$ 0	$ 49,736,613
Machinery and equipment	$ 2,243,263	$ 227,102	$ 183,121	$ 2,287,244
Other				
Total accumulated depreciation	$ 55,049,791	$ 3,596,057	$ 419,000	$ 58,226,848
Total capital assets, being depreciated, net	$ 38,436,826	$ 3,498,088	$ 6,871	$ 41,928,043

C. <u>Construction Commitments</u>

The Port has active construction projects as of December 31, 2008. The projects include: Terminal, taxiway/runway improvements, road improvement projects, railway improvements, warehouse/building improvement projects.

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

Project	Spent to Date	Remaining Commitment
Warehouse/Building Improvements	$ 1,249,740	$ 697,338
Terminal,taxiway,runway Improvements	$ 9,908,367	$ 666,518
Road Improvements	$ 480,374	$ 0

Of the committed balance of $1,422,943 the Port will be required to raise $730,664 in future funding.

NOTE 5 – PENSION PLANS

Substantially all 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. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers and 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

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation(AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced 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 three percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Nonvested	2,575
Total	**255,849**

<u>Funding Policy</u>

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

Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates were 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 the state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates express as a percentage of current-year covered payroll, as of December 31, 2008 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%**	8.31%**	8.31%***
Employee	6.00%****	5.45%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 12.39% for Plan 1 and 8.31% for Plan 2 and Plan 3.
***Plan 3 defined benefit portion only.
****The employee rate for state elected officials is 7.50% for Plan 1 and 5.45% for Plan 2.
*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	$9,565	$121,154	$ 0
2007	$8,507	$ 93,819	$ 613
2006	$4,884	$ 27,717	$1,347

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

<u>Plan Description</u>
LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants 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. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively July 27, 2003, being an exception.

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 for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit 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. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

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 Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 year	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 proceeding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months salary within the last ten years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	9,085
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	633
Active Plan Members Vested	12,904
Active Plan Members Nonvested	3,708
Total	**26,330**

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.46%**
Employee	0.00%	8.83%
State	N/A	3.53%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for ports and universities is 8.99%.

Both the Port of Pasco and the employees made the required contributions. The Port's required contribution for the years ending December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2008	$0	$ 5,626
2007	$0	$14,076
2006	$0	$16,149

NOTE 6-SHORT TERM DEBT

The Port of Pasco has no short term debt currently.

NOTE 7 – LONG TERM DEBT AND LEASES

A. Long-Term Debt

The Port of Pasco issues General Obligation and/or Revenue bonds to finance the construction of buildings and infrastructure. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds.

The 2001 general obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Re-imbursement Prior Projects	2009-2020	3.5%-5.0%	$3,120,000	$250,999

The annual debt service requirements to maturity for the 2001 general obligation bonds are as follows:

Year Ending December 31	Principal	Interest
2009	$ 145,000	$ 105,999
2010	$ 150,000	$ 100,018
2011	$ 155,000	$ 93,642
2012	$ 165,000	$ 86,900
2013	$ 170,000	$ 79,145
2014-2018	$ 980,000	$ 266,100
2019-2020	$ 465,000	$ 35,250
Total	$ 2,230,000	$ 767,054

The 2004 General Obligation Bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Re-imbursement Prior Projects	2009-2024	2.35%-4.66%	$3,125,000	$247,383

The annual debt service requirements to maturity for the 2004 general obligations bonds are as follows:

Year Ending December 31	Principal	Interest
2009	$ 140,000	$ 107,383
2010	$ 145,000	$ 101,615
2011	$ 150,000	$ 95,163
2012	$ 160,000	$ 88,172
2013	$ 135,000	$ 81,980
2014-2018	$ 750,000	$ 334,023
2019-2023	$ 910,000	$ 170,575
2024	$ 205,000	$ 9,327
Total	$ 2,595,000	$ 988,238

The other Debt currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
PPC Infrastructure	2008-2012	6.1%	503,712	$83,952

The annual debt service requirements to maturity for other debt are as follows:

Year Ending December 31	Principal	Interest
2009	$ 70,289	$ 13,663
2010	$ 74,576	$ 9,376
2011	$ 79,126	$ 4,826
Total	$ 223,991	$ 27,865

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 or debt premium and increased by the amortization of debt issue costs and discounts.

B. Changes in Long-Term Liabilities

During the year ended December 31, 2008 the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/08	Additions	Reductions	Ending Balance 12/31/08	Due Within One Year
Bonds payable: G.O. Bonds, Revenue Bonds	$5,100,000	$ 0	$ 275,000	$4,825,000	$ 285,000
Other Debt	$ 290,239	$ 0	$ 66,248	$ 223,991	$ 70,289
Capital Leases	$ 0	$ 0	$ 0	$ 0	$ 0
Compensated absences	$ 212,623	$ 22,530	$ 5,117	$ 230,036	$ 0
Total long-term liabilities	$5,602,862	$ 22,530	$ 346,365	$5,279,027	$ 355,289

NOTE 8 – CONTINGENCIES AND LITIGATION

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

The Port is presently involved in a soils cleanup proceeding with the Department of Ecology along with other parties at the marine terminal. In May of 1996 the Port entered into a settlement which set the terms for the payment of cleanup costs. The agreement requires the Port to pay 37% of all remediation costs. Total remediation costs are estimated at $3,720,600 and the Port's portion of the liability is $1,376,622 ($3,720,600 x 37%). In 2008 updated cleanup estimates include 4 years totals, with scope contingency and three years passive cleanup (compliance monitoring, cleanup demonstration and well closure until 2020). No additional contingent amount was booked as there is currently a liability booked of $1,612,110. The net effect is summarized below:

Operating Revenue:	
MTCA Grant	$ 108,940
Total additional operating revenue recognized	$ 108,940
Net effect of the cleanup costs on operating income	$ 108,940

The Port has obtained an additional MTCA operating grant for $772,583 for the period January 1, 2003 through June 30, 2009 and continues to work with the Department of Ecology for future MTCA funding. We have received an additional grant for $329,994 effective August 1, 2006.

The Port participated in a number of federal and state assisted programs. The grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Port management believes that such disallowances would be immaterial.

NOTE 9 – FUND EQUITIES

Reservations of Net Assets

Net Assets are generally reserved to indicate that a portion of Net Assets have been externally restricted for specific purposes. The amount reserved equals total restricted assets except for amounts intended for payment of current payables and debt proceeds for construction purposes. In 2008 this amount is listed under Restricted Assets in the Equity section of the Comparative Statement of Net Assets and includes Passenger Facility Charges collected and not expended to date and a restricted Custom Share account.

Designated Net Assets

This category is used to set aside fund equity when Port management has plans or tentative commitments to expand resources for certain purposes in future periods. Further legal action will be required to authorize the actual expenses.

NOTE 10-RISK MANAGEMENT

The Port currently maintains commercial insurance coverage against most hazards. General liability coverage is in effect to a limit of $1,000,000 per occurrence or $2,000,000 aggregate with a $10,000 deductible. Excess liability coverage is in effect with a limit of $30,000,000, after the $1,000,000 loss. The Port maintains a separate policy for airport liability with a limit of $75,000,000 combined personal injury and property damage with a $10,000 deductible. Commercial property coverage with a limit of $15,000,000 and a deductible of $100,000 is in effect and includes earthquake coverage with a limit of $15,000,000 and flood coverage with a limit of $15,000,000, subject to $100,000 minimum deductible or 2 percent of the value at the time of loss. All other losses have a deductible of $25,000. In addition, the Port has coverage for public officials and employee liability, foreign liability and various bonds as required by law. The Port maintains standard business automobile, and boiler and machinery coverage.

NOTE 11 – SEGMENT ACTIVITY – ENTERPRISE FUNDS

The Port operates an airport and the Big Pasco Industrial Center which are primarily financed by user charges. The property tax levy and interest on investments support both enterprise segments. Operating revenues as presented include receipts derived from or for the operation of the port including, but not limited to Airport User Charges (Landing fees and Parking Lot fees), Airport and Industrial Park Building and Land Rental fees, Marine Terminal User fees (Wharfage and Dockage, and Container Service Fees), Facilities rental fees and Operating Grants or assistance from other governmental entities. Operating expenses are those expenses resulting from the ongoing operations of the Port of Pasco including, but not limited to utilities, repair, maintenance, insurance and other costs of doing business. General and Administrative expenses and Depreciation are included in operating net income but are listed separately. Non-operating revenue and expenses include taxes from operations, interest income and expense, miscellaneous sales, Grants or assistance from other governmental entities for capital expenditures and non recurring items such as Sale of property. The key financial data for the year ended December 31, 2008 and 2007, for these facilities are as follows:

MCAG 1710

PORT OF PASCO

2008 Segment Information

	Big Pasco	Airport	Total
TOTAL OPERATING REVENUES	2,750,944	4,057,221	6,808,165
OPERATING EXPENSES:			
OPERATIONS AND MAINTENANCE	2,818,756	3,568,883	6,387,639
DEPRECIATION	1,017,549	2,578,508	3,596,057
TOTAL OPERATING EXPENSES	3,836,305	6,147,391	9,983,697
OPERATING INCOME (LOSS)	(1,085,361)	(2,090,170)	(3,175,532)
NON-OPERATING REVENUES (EXP)			
INTEREST (NET)			(71,800)
TAXES			1,522,256
OTHER			4,697,297
TOTAL NONOPERATING REVENUE (EXP)			6,147,753
FINANCIAL ASSISTANCE			
CAPITAL GRANTS RECEIVED(NET)	388,259	483,377	871,636
NET INCOME(LOSS)			3,843,858
PROPERTY, PLANT,EQUIPMENT:			
INCREASES (DECREASES)	419,678	5,416,412	5,836,089
LONG TERM LIABILITIES			
PAYABLE FROM OPERATIONS	31,419	4,933,035	4,964,454

PORT OF PASCO
2007 Segment Information

	Big Pasco	Airport	Total
TOTAL OPERATING REVENUES	2,835,438	4,131,007	6,966,445
OPERATING EXPENSES:			
OPERATIONS AND MAINTENANCE	2,576,238	3,584,732	6,160,970
DEPRECIATION	954,598	2,404,494	3,359,092
	-------------------	---------------------	-----------------
TOTAL OPERATING EXPENSES	3,530,836	5,989,226	9,520,062
OPERATING INCOME (LOSS)	(695,398)	(1,858,219)	(2,553,618)
	-------------------	---------------------	-----------------
NON-OPERATING REVENUES (EXP)			
INTEREST (NET)			(58,096)
TAXES			1,448,545
OTHER			1,097,340
	-------------------	---------------------	-----------------
TOTAL NONOPERATING REVENUE (EXP)			2,487,789
FINANCIAL ASSISTANCE			
CAPITAL GRANTS RECEIVED(NET)	4,693,063	3,817,106	8,510,169
NET INCOME(LOSS)			8,444,341
	-------------------	---------------------	----------------
PROPERTY, PLANT,EQUIPMENT:			
INCREASES (DECREASES)	7,453,695	1,102,559	8,556,254
LONG TERM LIABILITIES	-------------------	---------------------	-----------------
PAYABLE FROM OPERATIONS	2,760,633	(2,714,547)	46,086
	-------------------	---------------------	-----------------

NOTE 12 – FORMATION OF PUBLIC CORPORATION

The Port of Pasco Economic Development Corporation was formed on January 14, 1982 by the Port Commissioners pursuant to the provisions of 1981 Washington laws Chapter 300 to promote local economic development. Commissioners of the Port of Pasco also serve as directors of the Port of Pasco Economic Development Corporation.

2008 Revenues of the Port of Pasco Economic Development Corporation amounted to $4,000. The current balance in this account is $26,780.42.

NOTE 13 – POST RETIREMENT BENEFITS OTHER THAN PENSION BENEFIT

In addition to the pension benefits described in Note 5, the Port provided post retirement health care benefits, to retired employees and their spouse, who retire after at least 10 years of service to the Port and qualifies to receive benefits from the Washington State Public Employee Retirement System. As of December 31, 2008, three(3) retirees met this eligibility requirement.

The Port pays for an insurance policy for the retirees until they are eligible for Medicare at which time coverage ends. Employer contributions are financed on pay-as-you go basis. Expenditures for post retirement benefits are included in administrative fringe benefits.

During the year, expenditures of $23,169 were recognized for post retirement health care.

NOTE 14 – CONTRIBUTED CAPITAL

GASB Statement No. 33, *Accounting and Financial Reporting for Non Exchange Transactions,* addresses accounting for non exchange transactions and was adopted by the Port of Pasco effective January 1, 2001. The statement requires that contributed capital be recognized as revenue in the current year. Prior to adopting GASB Statement No. 33, the Port of Pasco included capital in the equity section on the balance sheet as capital contributions

NOTE 15 – DEFERRED DEBITS (CREDITS)

In accordance with generally accepted accounting principles for regulated businesses, the Port of Pasco has $0 deferred (losses, costs, receipts, etc.) in 2008, and $ 0 in 2007.

NOTE 16 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

PORT OF PASCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008

				Expenditures		
Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	From Pass-Through Awards	From Direct Awards	Total
U.S. Department of Transportation	Airport Improvement Program	20.106	3-53-0046-31		$583,762	$583,762
U.S. Department of Transportation	Airport Improvement Program	20.106	3-53-0046-32		$91	$91
U.S. Department of Homeland Security	Law Enforcement Officer Reimbursement Program	97.090	DTSA20-03-P-01574		$130,368	$130,368
State of Washington Department of Transportation	Highway Planning and Construction	20.205	LA06525	$422,353		$422,353
State of Washington Department of Transportation	Railroad Rehabilitation & Improvement Financing Program	20.316	RR-00397	$9,119		$9,119
Department of Defense Office of Economic Adjustment	Community Economic Adjustment Assistance for Closure of a Military Installation	12.607	CL0684-07-01		$8,633	$8,633
TOTAL FEDERAL AWARDS EXPENDED				$431,472	$722,854	$1,154,326

PORT OF PASCO
Notes To Schedule of Expenditures of Federal Awards
January 1, 2008 through December 31, 2008

Note 1 – Basis of Accounting

The Schedule of Financial Assistance is prepared on the same basis of accounting as the Port's Financial Statements.

Note 2 – Program Costs

The amount shown as current year expenditures represent only the federal and state portion of the program costs.

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 in cooperation 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 our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

Web Site	**www.sao.wa.gov**
Subscription Service	**https://www.sao.wa.gov/EN/News/Subscriptions/**