Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Port of Pasco

Franklin County

Audit Period

January 1, 2004 through December 31, 2004

Report No. 69423

Issue Date

September 23, 2005

Washington
State Auditor
Brian Sonntag

Washington State Auditor
Brian Sonntag

September 23, 2005

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.

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Port of Pasco
Franklin County
January 1, 2004 through December 31, 2004

Federal Summary

Port of Pasco
Franklin County
January 1, 2004 through December 31, 2004

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.

- An unqualified opinion was issued on the Port's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the Port.
- We issued an unqualified opinion on the Port's compliance with requirements applicable to its major federal program.
- We reported no findings, which are required to be disclosed under OMB Circular A-133.
- We noted in our Independent Auditor's Report on Financial Statements that the Schedule of Expenditures of Federal Awards was fairly presented.
- 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.
- The following was a major program during the period under audit:

CFDA No.	Program Title
20.205	Highway Planning and Construction

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

Port of Pasco
Franklin County
January 1, 2004 through December 31, 2004

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, 2004, and have issued our report thereon dated September 2, 2005.

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.

COMPLIANCE

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Port's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

September 2, 2005

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, 2004 through December 31, 2004

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, 2004. 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 and 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, 2004.

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 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 in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

September 2, 2005

Independent Auditor's Report on Financial Statements

Port of Pasco
Franklin County
January 1, 2004 through December 31, 2004

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, 2004, as listed on page 8. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Pasco, as of December 31, 2004, and the changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 9 through 17 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 opinions 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

September 2, 2005

Financial Section

Port of Pasco
Franklin County
January 1, 2004 through December 31, 2004

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, 2004. 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 serves portions of seven counties in Washington and Oregon. Directly adjacent to the airport is a Port-owned industrial park

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, the Port and the Tri-City Industrial Development Council (TRIDEC) is underway to attract new companies to the center. There are already three major tenants employing 700 FTEs with three supporting industries on board.

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 it's 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 go 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. This could drive the current marine operator to renegotiate its lease with the Port. In addition, with the loss of two barge shipping lines at the Port of Portland, Port of Pasco has seen an increase in rail traffic. This has resulted in the need to upgrade the existing rail lines. The Port has currently received notification of state funding for this project in the amount of $5.4 million.

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 $175,000 would become the Port's responsibility.

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 soil clean-up proceeding with the Department of Ecology along with other parties at the marine terminal. The Port's current liability is estimated at $2.4 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 2004 the Port's overall operating revenues increased slightly up $8,400 or less than 1% over 2003 business revenue levels.

The Port's overall operating costs decreased in 2004, going down $293,393 or 3.4% over 2003 operating expense levels.

The Port had overall Net Income of 4,292,260 in 2004. This included $4,998,068 in grants.

The Port's operating revenues were more than budgeted by $523,858 and the operating expenses were more than budgeted by $135,034 resulting in net operating income of $388,823 over budget.

Financial Analysis of the Port of Pasco

Net Assets: the following table summarizes the changes in Net Assets between January 1, 2004 and December 31, 2004
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	2004	2003	Net Change
Current Assets	11,053,282	8,575,579	2,477,703
Capital Assets	42,444,133	37,523,313	4,920,820
	--------------------	---------------------	----------------
Total Assets	53,497,415	46,098,892	7,398,523
Long Term Debt	6,351,992	4,104,269	2,247,723
Other Liabilities	4,436,035	3,577,495	858,540
	--------------------	---------------------	-----------------
Total Liabilities	10,788,027	7,681,764	3,106,263
Total Net Assets	42,709,388	38,417,128	4,292,260

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

	2004	2003	Net Change
Airport Operations	3,175,256	3,258,724	(83,468)
Marine Terminal Operations	212,392	272,720	(60,328)
Property lease/rental operations	2,321,077	2,095,901	225,176
	------------------	-----------------	------------
Total Operating Revenue	5,708,725	5,627,345	81,380
General Operations expenses	4,070,460	4,150,159	(79,699)
Depreciation	2,919,393	2,744,209	175,184
Maintenance	283,167	266,825	16,342
G & A	1,006,217	1,132,610	(126,393)
	------------------	-----------------	------------
Total Expenses	8,279,237	8,293,803	(14,566)
Net Operations	(2,570,512)	(2,666,457)	95,945
Non-Operating Income (Loss)	1,864,705	1,763,562	101,143
Capital Grants Received	4,998,068	663,747	4,334,321
Change in Net Assets	4,292,260	(210,554)	4,502,814

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 changes in capital assets between 2004 and 2003. See Note 4.

	2004	2003	Net Change
Land	3,056,344	2,928,552	127,792
Buildings	71,643,869	67,421,210	4,222,659
Equipment	3,089,538	2,976,647	112,891
CWIP	10,697,404	7,320,531	3,376,873
Accumulated Depreciation	(46,043,021)	(43,123,628)	(2,919,393)
	------------------	---------------	-----------------
	42,444,133	37,523,312	4,920,821

Debt

At December 31, 2004 the Port of Pasco owed $5,885,000 in Long Term General Obligation Bonds and $ 466,991 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 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 are 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 in them during 2004. 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.

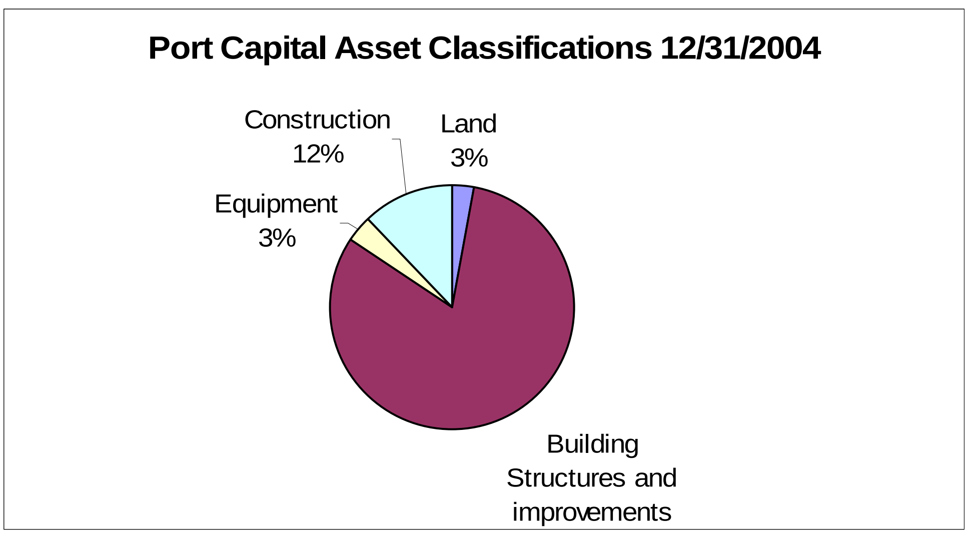
Fund Financial Statements

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 business revenue – hence the name "proprietary" fund. The Statement of Revenues, Expenses, and Changes in Net Fund Assets shown above are 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 12/31/2004.

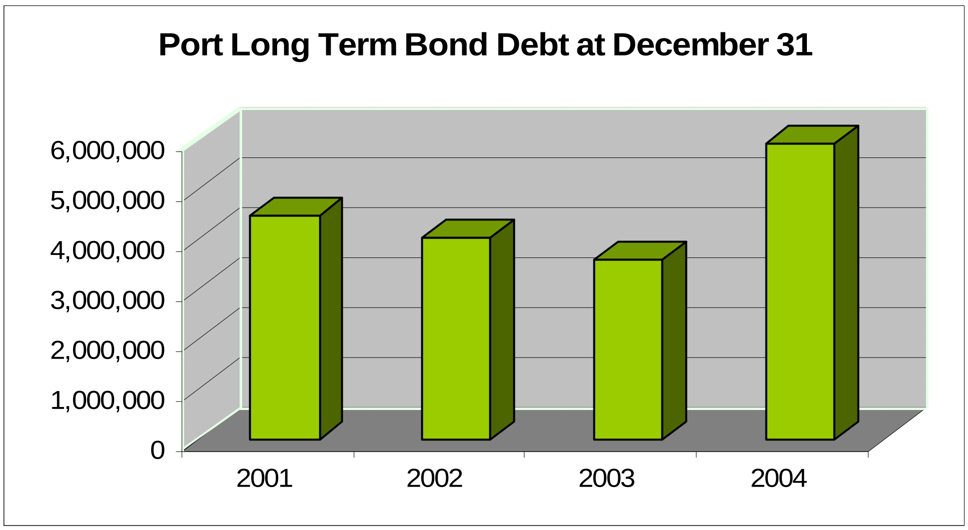
The Port's Net Assets increased by $7,398,523 as of 12/31/2004. The book value of the asset base increased $4,920,821 in 2004 as a result of improvements to the airport terminal and taxiway. The Port's expenses about $3,000,000 per year in depreciation charges. When the Port invests less than that amount in new capital assets in a year, the book value of the asset base declines. The rate of new capital investment increased in 2004 compared to 2003. In 2003, the Port's asset base declined $ 283,428.



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 $33,550,000 in capital projects over the next five years. $18,000,000 is expected in grants and the remainder from tax revenues, port funds or proceeds from sale of property.

The Port's current liabilities as of 12/31/2004 are debts the Port will repay in 2005. The total current liabilities increased from $1,453,902 to $2,370,478. Accounts payable at the year end were higher by $324,571. This was due mainly to accounts payable on construction projects and an increase in deferred credits.

The Port's long term liabilities increased in 2004, largely as a result a new General Obligation bond issue of $3,125,000. Liabilities at year end were $8,417,549 an increase of $ 2,189,687 from $6,227,863 in 2003. Accrued environmental costs decreased as a result of reassessment of future costs of environmental remediation. The balance in that account is $2,361,239, which along with continued Environmental operating grants, management believes will be sufficient to cover the Port's share of the remaining clean-up costs.

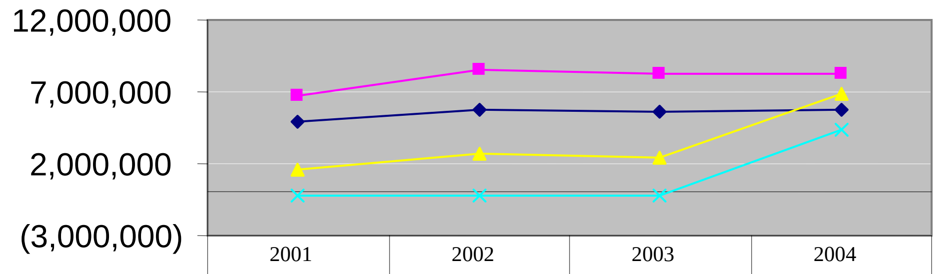


The Port has booked the acquisition of all assets at historical costs on its Statement of Net Assets. The Port has received certain grants in aid of construction or acquisition of certain of its assets, including its airport. The contributions received from other governments for these assets are shown 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 $5,708,725 in 2004, a slight increase over 2003. The Port's operating expenses were $8,279,237 down 1% from 2003. The Port has a net operating gain of $4,292,260 which includes $4,998,068 in capital grants. Expenses include depreciation expense.

Port Operating Revenue & Expense, Nonoperating Revenue & Net Income



	2001	2002	2003	2004
Operating Revenue	4,961,198	5,700,325	5,627,345	5,708,726
Operating Expenses	6,739,678	8,572,631	8,293,803	8,279,237
Non-Operating Revenue (Net)	1,556,354	2,645,853	2,455,903	6,862,772
Net Gain or (Loss)	(222,126)	(226,453)	(210,555)	4,292,261

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.

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PORT OF PASCO
STATEMENT OF NET ASSETS
For the Year Ended December 31, 2004

ASSETS

CURRENT ASSETS:	
Cash and Cash equivalents	1,300,521
Investments	6,260,354
Taxes Receivable	76,963
Accounts receivable	198,858
(net of allowance for uncollectibles)	(120,423)
Due from other Governmental Units	83,538
Inventory	3,898
Prepaid expenses	107,928
Other current assets	325,460
Total Current Assets	8,237,097
RESTRICTED ASSETS:	
Investments	2,705,438
Self Insurance Trust	110,748
Total Restricted Assets	2,816,186
CAPITAL ASSETS:	
Property, plant and equipment	77,789,751
Construction in progress	10,697,404
Less: Accumulated depreciation	(46,043,021)
Total Net Capital Assets	42,444,133
TOTAL ASSETS	53,497,415

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MCAG 1710

PORT OF PASCO
STATEMENT OF NET ASSETS
For the Year Ended December 31, 2004

LIABILITIES AND EQUITY

CURRENT LIABILITIES:	
Warrants payable	127,575
Accounts payable	683,344
Accrued interest payable	78,213
Deferred revenue/credits	825,601
Current portion of Long-term Obligations	320,466
Discount on Current portion of Bonds	(11,800)
Other Current Liabilities	347,079
Total Current Liabilities	2,370,478
NON-CURRENT LIABILITIES	
General Obligation Bonds	5,620,000
Revenue Bonds	0
Discount of Long-term Obligations	(159,033)
Employee leave benefits	183,817
Other Long-term Liabilities	411,526
Soils Clean-up Liability	2,361,239
Total Long-Term Liabilities	8,417,549
Total Liabilities	10,788,027
NET ASSETS	
Invested in capital assets, net of related debt	36,092,141
Restricted	2,816,186
Unrestricted	3,801,061
	42,709,388
TOTAL NET ASSETS	53,497,415

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MCAG 1710 PORT OF PASCO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Year Ended December 31, 2004

OPERATING REVENUES	
Airport Operations	3,175,256
Marine terminal operations	212,392
Property lease/rental operations	2,321,077

Total Operating Revenues	5,708,725
OPERATING EXPENSES:	
General operations	4,070,460
Maintenance	283,167
General and administrative	1,006,217
Depreciation	2,919,393

Total Operating Expenses	8,279,237
Income (Loss) from Operations	(2,570,512)
NONOPERATING REVENUES (EXPENSES)	
Interest income	79,458
Taxes levied for Port operations	1,107,169
Interest expense	(228,672)
Election expense	(15,367)
Other nonoperating revenues (expenses)	922,116

Total Nonoperating Revenues (expenses)	1,864,704
Capital Contributions	4,998,068

Increase (decrease) in net assets	4,292,260
Net Assets beginning of period	38,417,128
Prior Period Adjustments	
Net Assets end of period	42,709,388
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SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MCAG 1710

PORT OF PASCO
STATEMENT OF CASH FLOWS
for the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	5,717,439
Payments to suppliers	2,435,507
Payments to employees	2,893,969
Net cash provided by operating activities	387,963
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Operating subsidies and receipt of taxes	1,258,713
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	3,025,063
Capital contributions	6,264,996
Purchases of capital assets	(7,152,415)
Proceeds from Sale of Property	90,963
Principal paid on capital debt	(877,276)
Interest paid on capital debt	(228,027)
Net cash provided by capital and related financing activities	1,123,304
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	79,458
Net cash provided by investing activities	79,458
Net increase in cash and cash equivalents	2,849,438
Balances-beginning of the year	7,540,567
Balances -end of the year	10,377,061

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

Operating income (loss)	(2,570,697)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,919,393
Changes in assets and liabilities:	
Receivables, net	2,572
Account and other payables	324,571
Accrued expenses	(111,113)
Soils Clean-up Liabilities	(176,762)
Net cash provided by operating activities	387,963

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF PASCO
NOTES TO FINANCIAL STATEMENTS
January 1, 2004 through December 31, 2004

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 conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments.* 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 11.

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 Classified Port Districts* in the State of Washington.

Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities associated with their activity are included on their balance sheets. Their reported fund equity consists of net assets. Operating statements present increases and decreases in net total assets. The Port disclosed changes in cash flows by a separate statement that presents their operating, investing and financing activities.

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

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, 2004 the treasurer was holding $6,260,354 in short-residual investments of surplus cash. This amount is classified on the balance sheet as Current Assets/Investments.

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 contracted 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 not 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 6.

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	$2,705,438
Self Insurance Trust	$ 110,748
Total Restricted Assets	$2,816,186

7. Capital Assets and Depreciation See Note #4.

8. Other Property and Investments See Note #2.

9. Custodial Accounts

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

10. 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.

11. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

12. Long-term Debt See Note #7.

13. Deferred Revenues/Credits

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

14. Contributed Capital See Note #14.

15. 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, 2004, the Port had the following investments:

Investment	Value
State investment pool	$9,082,641

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 State Constitution and Washington State 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 2004 was $.4446 per $1,000 on an assessed valuation of $2,523,143,771 for a total regular levy of $1,101,272. In 2003 the regular tax levy was $1,057,315. 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 fixed assets, including capital leases and major repairs that increase useful lives, are capitalized. Our capitalization threshold is $1,500 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).

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 50 years.

B. Capital assets activity for the year ended December 31, 2004 was as follows:

	Beginning Balance 1/1/2004	**Increases**	**Decreases**	**Ending Balance 12/31/04**
Capital assets, not being depreciated:				
Land	$ 2,928,552	$ 259,130	$ 131,338	$ 3,056,344
Construction in Progress	$ 7,320,532	$7,623,587	$4,246,715	$10,697,404
Total Capital assets, not being depreciated	$ 10,249,084	$7,882,717	$4,378,053	$13,753,748
Capital assets, being depreciated:				
Buildings and Structures	$67,421,210	$4,222,659	$	$71,643,869
Equipment	$ 2,976,647	$ 112,891	$	$ 3,089,538
Total Capital assets being depreciated:	$70,397,857	$4,335,550	$	$74,733,407
Less accumulated depreciation for:				
Buildings and Structures	$41,413,778	$2,776,533		$44,190,311
Equipment	$ 1,709,850	$ 142,861	$	$ 1,852,711
Total accumulated depreciation	$43,123,628	$2,919,393	$	$46,043,021
Total Capital assets, being depreciated, net	$27,274,229	$1,416,157	$	$28,690,386

C. Construction Commitments

The Port has active construction projects as of December 31, 2004. The projects include: Terminal improvements, road improvement projects, 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	$ 208,499	$ 20,523
Terminal Improvements	$1,173,445	$256,798
Road Improvement Projects	$ 3,133,632	$1,034,135

Of the committed balance of $1,311,456, the Port will be required to raise $185,811 in future financing.

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

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 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 option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

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

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

There are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	20,001
Active Plan Members Vested	100,469
Active Plan Members Nonvested	54,081
Total	**239,913**

<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 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. 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. 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, 2004, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.38%	1.38%	1.38%**
Employee	6.00%	1.18%	***

*The employer rates include the employer administrative expense fee currently set at 0.19%.
**Plan 3 defined benefit portion only.
***Variable from 5.0% minimum to 15.0% maximum based on rate selected by 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
2004	$2,241	$18,914	$983
2003	$2,158	$18,308	$705
2002	$2,207	$19,447	$0

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

Plan Description
LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the exception of the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003. 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. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established 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. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county or district, the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary 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 final average salary 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 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes 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 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	4,003
Total	**24,374**

Funding Policy

Starting on July 1, 2000, 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. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.34 RCW. 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 Plan 2 in accordance with the requirements of the Pension Funding Council. 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 methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covers payroll, as of December 31, 2004, were as follows:

	LEOFF Plan 1	**LEOFF Plan 2**
Employer*	0.19%	3.25%**
Employee	0.00%	5.09%
State	N/A	2.03%

*The employer rates include the employer administrative expense fee currently set at 0.19%.
**The employer rate for ports and universities is 5.28%.

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**
2004	$0	$11,998
2003	$0	$9,261
2002	$0	$7,213

NOTE 6-SHORT TERM DEBT

The Port of Pasco has no short term debt currently.

NOTE 7 – LONG TERM DEBT

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	Interest	Amount
Re-imbursement Prior Projects	Various	$2,760,000

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

Year Ending December 31	Principal	Interest	Interest Rate
2005	$ 125,000	$ 125,749	3.5%
2006	$ 130,000	$ 121,374	3.625%
2007	$ 135,000	$ 116,661	3.75%
2008	$ 140,000	$ 111,599	4.00%
2009	$ 145,000	$ 105,999	4.125%
2010-2014	$ 820,000	$ 430,860	4.25%
2015-2020	$1,265,000	$ 230,195	4.35/5.0%
Total	$2,760,000	$1,242,437	

The 2004 General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount
Re-imbursement Prior Projects	Various	$3,125,000

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

Year Ending December 31	Principal	Interest	Interest Rate
2005	$ 140,000	$108,769	2.35%
2006	$ 125,000	$120,624	2.90%
2007	$130,000	$116,999	3.43%
2008	$135,000	$112,540	3.82%
2009	$140,000	$107,383	4.12%
2010-2014	$730,000	$444,320	4.45%
2015-2019	$775,000	$305,605	3.2/4.85%
2020-2024	$950,000	$130,930	3.2/4385%
Total	$3,125,000	$1,447,170	

The other Debt currently outstanding are as follows:

Purpose	Interest Rate	Amount
PPC Infrastructure	6.1%	$466,991

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

Year Ending December 31	Principal	Interest
2005	$ 55,465	$ 28,487
2006	$ 58,849	$ 25,103
2007	$ 62,439	$ 21,513
2008	$ 66,247	$ 17,705
2009	$ 70,289	$ 13,663
2010-2011	$153,702	$14,202
Total	$466,991	$120,673

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. Retired Debt

The following bond issues have been retired as of December 31, 2004.

Bond Issue	Amount Outstanding
1994 TCA Revenue Bond	$705,000
Revenue Bonds Outstanding	$0

The advance refunding was undertaken to (reduce total debt service payments over the next one (1) years by $365,000) and resulted in an economic gain of $20,075.

1. Capital Leases

The Port of Pasco has entered into a lease agreement for financing a top-loader. These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	
Top Loader	$59,167
Less Accumulated Depreciation	$0
Total	$59,167

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2004 were as follows:

Year Ending December 31	
2004	$0
Total Minimum Lease Payments	$21,500
Less: Interest	$
Present Value of Minimum Lease Payments	$0

B. Changes in Long-Term Liabilities

During the year ended December 31, 2004 the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/04	Additions	Reductions	Ending Balance 12/31/04	Due Within One Year
Bonds payable: G.O. Bonds, Revenue Bonds	$3,585,000	$3,125,000	$825,000	$5,885,000	$265,000
Other Debt	$ 519,269		$52,277	$ 466,992	$ 55,465
Capital Leases	$ 17,416		$ 17,416	$ 0	$ 0
Compensated absences	$ 172,920	$10,896net	$	$ 183,816	
Total long-term liabilities	$4,294,605	$3,135,896	$894,693	$6,535,808	$320,465

NOTE 8 – CONTINGENCIES AND LITIGATION

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 were estimated at $5,572,634 and the Port's portion of the liability is $2,061,875 ($5,572,634 x 37%). In 2004 updated cleanup estimates include 4 years totals, with scope contingency and two years passive cleanup (compliance monitoring, cleanup demonstration and well closure until 2011). No additional contingent amount was booked as there is currently a liability booked of $2,361,239. The net effect is summarized below:

Operating Revenue:

MTCA Grant	$ 129,202
Total additional operating revenue recognized	$ 129,202

Net effect of the cleanup costs on operating income	$ 129,202

The Port has obtained an additional MTCA operating grant for $772,583 for the period January 1, 2003 through June 30, 2005 and continues to work with the Department of Ecology for future MTCA funding. We expect the applications to continue to be successful in the future.

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 is generally reserved to indicate that a portion of Net Assets has 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 2004 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, 2004 and 2003, for these facilities are as follows:

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PORT OF PASCO

2004 Segment Information

	Big Pasco	Airport	Total
TOTAL OPERATING REVENUES	2,533,469	3,175,256	5,708,725
OPERATING EXPENSES:			
OPERATIONS AND MAINTENANCE	2,198,995	3,160,849	5,359,844
DEPRECIATION	918,636	2,000,757	2,919,393
TOTAL OPERATING EXPENSES	3,117,631	5,161,607	8,279,238
OPERATING INCOME (LOSS)	(584,162)	(1,986,351)	(2,570,513)
NON-OPERATING REVENUES (EXP)			
INTEREST (NET)			(149,214)
TAXES			1,107,169
OTHER			906,749
TOTAL NONOPERATING REVENUE (EXP)			1,864,704
FINANCIAL ASSISTANCE			
CAPITAL GRANTS RECEIVED	1,676,264	3,321,804	4,998,068
NET INCOME(LOSS)			4,292,260
PROPERTY, PLANT,EQUIPMENT:			
INCREASES (DECREASES)	363,312	4,100,030	4,463,342
LONG TERM LIABILITIES			
PAYABLE FROM OPERATIONS	(1,312,952)	778,226	(534,726)

PORT OF PASCO

2003 Segment Information

	Big Pasco	Airport	Total
TOTAL OPERATING REVENUES	2,368,621	3,258,724	5,627,345
OPERATING EXPENSES:			
OPERATIONS AND MAINTENANCE	2,402,085	3,147,509	5,549,594
DEPRECIATION	909,806	1,834,403	2,744,209
TOTAL OPERATING EXPENSES	3,311,891	4,981,912	8,293,803
OPERATING INCOME (LOSS)	(943,270)	(1,723,188)	(2,666,457)
NON-OPERATING REVENUES (EXP)			
INTEREST (NET)			(151,286)
TAXES			1,062,104
OTHER			881,338
TOTAL NONOPERATING REVENUE (EXP)			1,792,156
FINANCIAL ASSISTANCE			
CAPITAL GRANTS RECEIVED	55,396	608,351	663,747
NET INCOME(LOSS)			(210,554)
PROPERTY, PLANT,EQUIPMENT:			
INCREASES (DECREASES)	204,967	47,223	252,190
LONG TERM LIABILITIES			
PAYABLE FROM OPERATIONS	149,571	(561,128)	(411,557)

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.

2004 Revenues of the Port of Pasco Economic Development Corporation amounted to $4,051.

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. Currently 2 retirees meet these eligibility requirements as of December 31, 2004.

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 $10,349 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. As a result of adoption of this standard, contributed capital for 2002 and 2003 is included in the other income and expense section of the statement of income. Contributed capital prior to January 1, 2000 is reported in the equity section of the balance sheet. As such, contributed capital of $870,312 in 2002 and $1.3 million in 2001 is included in other income.

Contributed capital for the year 2003 and 2002 for the Port of Pasco consists of FAA Grants and the resulting infrastructure is recorded in property, plant and equipment or construction in progress.

NOTE 15 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1710 Schedule 16
MCAG NO.

PORT OF PASCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2004

Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Other Identification Number	Expenditures from Direct Awards
U.S. Department of Transportation			
Direct Programs:			
Airport Improvement Program	20.106	3-53-0046-27	3,024,644
Total Department of Transportation			3,024,644
U.S. Department of Homeland Security			
Direct Programs:			
Air Transportation Security Program	97.000	DTSA20-03-P-01574	153,839
Total U.S. Department of Homeland Security			3,178,483
State of Washington Department of Transportation			
Indirect Programs:			
Federal Highway Administration			
Highway Planning & Construction (Ainsworth Avenue Re-alignment and Sacagawea Heritage Trail)	20.205	LA05736	2,462,664
Highway Planning & Construction (Sr397/BNSF RR Xing)	20.205	LA04456	72,102
Department of Transportation			2,534,766
Total			5,713,249

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF PASCO
Notes To Schedule of Federal Financial Assistance
January 1, 2004 through December 31 2004

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.

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS