

Washington State Auditor's Office
Financial Statements Audit Report

Port of Kennewick
Benton County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 1000975

Issue Date
April 6, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

April 6, 2009

Board of Commissioners
Port of Kennewick
Kennewick, Washington

Report on Financial Statements

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

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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Benton County
January 1, 2007 through December 31, 2007**

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

Port of Kennewick Benton County January 1, 2007 through December 31, 2007

Board of Commissioners
Port of Kennewick
Kennewick, Washington

We have audited the basic financial statements of the Port of Kennewick, Benton County, Washington, as of and for the year ended December 31, 2007, and have issued our report thereon dated March 17, 2009.

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 17, 2009

Independent Auditor's Report on Financial Statements

Port of Kennewick Benton County January 1, 2007 through December 31, 2007

Board of Commissioners
Port of Kennewick
Kennewick, Washington

We have audited the accompanying basic financial statements of the Port of Kennewick, Benton County, Washington, as of and for the year ended December 31, 2007, as listed on page 5. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Kennewick, as of December 31, 2007, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 17, 2009

Financial Section

**Port of Kennewick
Benton County
January 1, 2007 through December 31, 2007**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2007

Statement of Revenues, Expenses and Changes in Fund Net Assets – 2007

Statement of Cash Flows – 2007

Notes to Financial Statements – 2007

Port of Kennewick

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2007

INTRODUCTION

The following is the Port of Kennewick's (the Port) Management Discussion and Analysis (MD&A) of financial activities and the performance for the calendar years ended December 31, 2007 and 2006. The discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Information contained in the MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

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

BACKGROUND

The Port is a Special Purpose Municipal Government. The prestigious Kennewick Commercial Club created a five square mile port district in 1915 to take advantage of the newly constructed Celilo Canal. This passageway allowed cargo vessels the opportunity to ship goods along the Columbia River to Portland, Oregon.

During the early years, the port concentrated its efforts on building rail and water transfer terminals in addition to barges and warehouse-type buildings for storage. A devastating flood in 1926 wiped out all the port docks and transfer facilities causing it to become stagnant.

Resurrecting itself in the 1940's with the advent of World War II, the port began purchasing real estate for industrial development. It was at that time the port hired its first full time employee to manage the daily operations, and signed its first lease with Columbia Marine Shipyards for construction of river vessels.

The 1950s and 1960s brought an era of significant growth industrially and jurisdictionally. Industrially, five significant chemical plants, several large food-processing plants, a major metallurgical plant, cold-storage facilities and boating amenities were built and became operational during this period. The port district also expanded its boundaries to 485 square miles.

The Port's direction shifted towards development of basic road and other services in the 1970's. It was at that time the industry's need for rail transportation and improved roadways increased.

Constructing incubator facilities and recruiting industries to the area was the main focus in the 1980's.

By the 1990s the Port gained possession of the Vista Field Airport. The Port worked on building more incubator facilities and creating partnerships with affiliate organizations to improve the local economy. As a result, several partnering opportunities arose with other municipalities and Tri-Ports organization was formed tying the Ports of Benton and Pasco with the Port of Kennewick.

Today, the Port of Kennewick concentrates its efforts on infrastructure and economic development in an effort to recruit entrepreneurial and diversified manufacturing operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Port of Kennewick falls under the control of the Governmental Accounting Standards Board (GASB). In 2004 the Port implemented a new reporting model mandated by GASB referred to as GASB Statement No. 34. Since the Port is comprised of a single enterprise fund, no fund level financial statements are shown nor required.

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

The statements of net assets and the statements of revenues, expenses and changes in net assets provide the Port with an overall financial position and results of operations to help assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. Over time, increases or decreases in net assets may serve as an indicator of whether the Port is financially stable or if there is a going concern.

The statements of revenues, expenses and changes in net assets show how the Port's net assets changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financial activities. A reconciliation of the cash provided by operating activities to the Port's operating income as reflected on the statement of revenues, expenses and changes in net assets is also included.

The notes to the financial statements provide the reader additional detailed information that may not be apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

FINANCIAL REPORT

Financial Highlights

- The Port's overall operating revenues increased by \$79,074, or 9% increase from 2006.
- The assets of the Port exceeded its liabilities at close of calendar year 2007 by \$38,913,344.

- Due to excess of revenues over expenses, the Port's net assets increased by \$4,112,694 in 2007.
- The 2007 expenditures showed an increase of \$169,867 or 8.8% in 2007 in comparison to 2006. This increase is stemmed from rising cost of health care, insurance and general cost of living increases noted nationwide.
- The Port's net non-operating income for 2007 was \$5,096,864.

Financial Position

The statements of net assets present the financial position of the Port as of December 31, 2007. The statements include all the Port's assets and liabilities. As described earlier, the net assets serve as an indicator of the Port's financial position. A summarized comparison of the Port's assets, liabilities and net assets at December 31, 2007 and 2006 follows:

PORT OF KENNEWICK'S Net Assets

	<u>2007</u>	<u>2006</u>
Current assets	\$ 4,735,238	\$ 5,994,935
Net capital assets	35,568,734	29,875,642
Total assets	<u>40,303,972</u>	<u>35,870,577</u>
Current liabilities	768,963	816,594
Long-term liabilities	621,667	253,333
Total liabilities	<u>1,390,630</u>	<u>1,069,927</u>
Net Assets:		
Invested in capital assets, net of related debt	31,340,891	21,189,826
Restricted	829,234	2,045,774
Unrestricted	6,743,219	11,565,050
Total net assets	<u>\$ 38,913,344</u>	<u>\$ 34,800,650</u>

Financial Operation Highlights

Increase in Net Assets: The Port's 2007 net assets increased \$4,112,694.

Capital Assets: The Port's investment in capital assets for its business type activities as of December 31, 2007 amounts to \$31,340,891 (net of accumulated depreciation). The Port's investment in capital assets increased just over \$10.1 million or 47% from 2006 primarily due to the new marina construction. This Port's investment in capital assets included a construction in process, improvements and machinery and equipment. The major capital asset events during 2007 included the new Marina, FBO Painting, and Port Retail/Office Tenant Improvements, and Vista Field Hangar Painting. The Port has the funding available to pay all Port commitments listed.

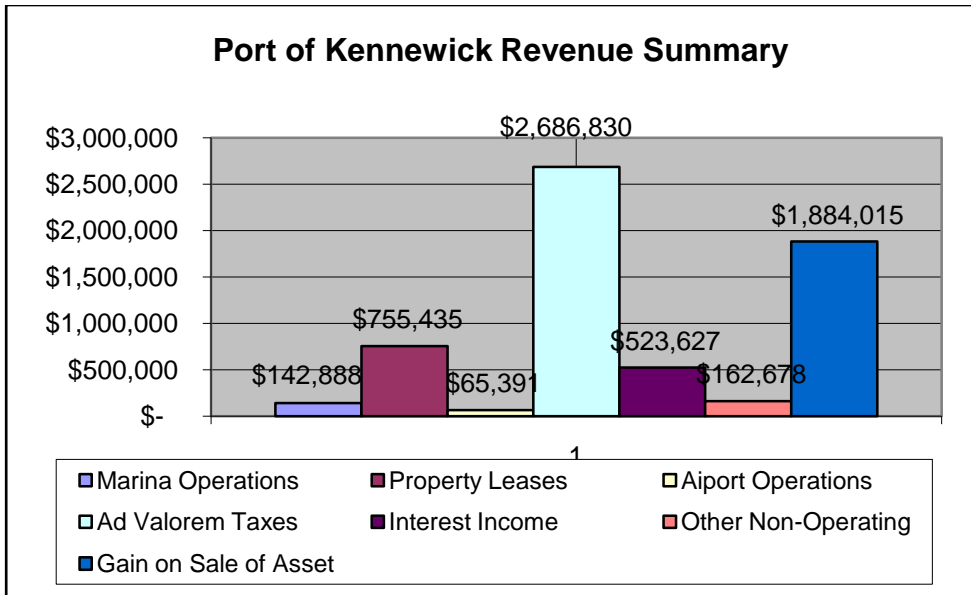
For additional information on Capital asset activity, refer to Note 4.

Liabilities: The Port has very minimal debt. The Port has a note payable to Washington State Community Economic Revitalization Board (CERB). The principal balance as of December 31, 2007 amounts to \$253,333. In December 2007 the Port purchased two hangars located at the Vista Field Airport. The Port put \$200,000 down for each hangar and entered into a contract payable in the amount of \$400,000 each. The total amount due is \$800,000 payable in two installments. The first payment is due on May 2008 and the final payment is due on May 2009.

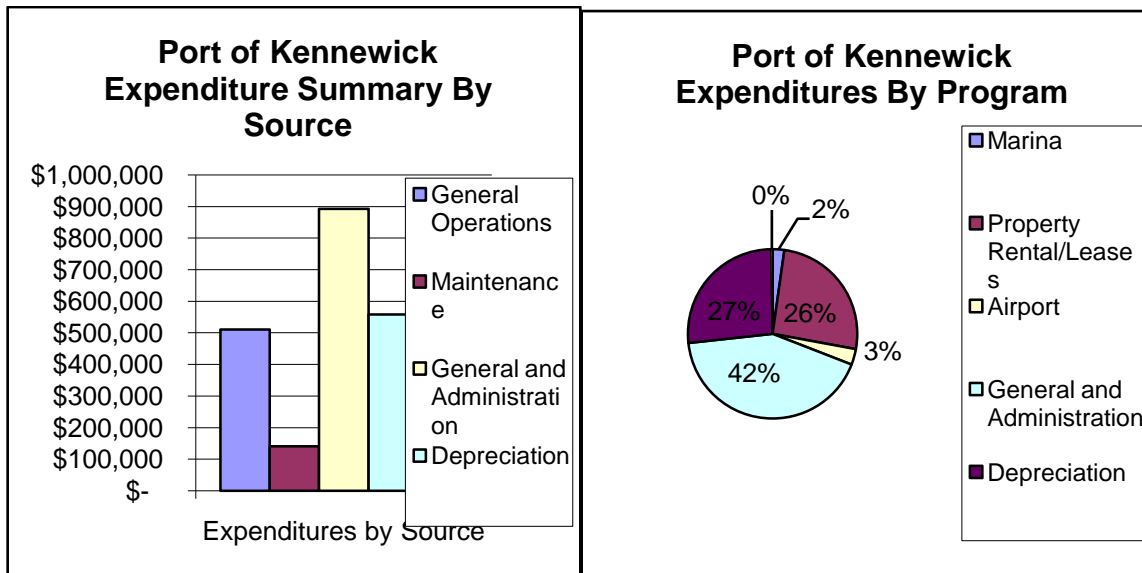
PORT OF KENNEWICK'S					
Statements of Revenues, Expenses and Changes in Net Assets					
				2007	2006
Operating revenues				\$ 963,714	\$ 884,640
Operating expenditures				2,102,601	1,924,589
Operating loss				(1,138,887)	(1,039,949)
Non-operating revenues (expenses):				2,410,022	2,888,244
Ad valorem tax revenues				2,686,842	2,527,453
Total non-operating revenues (expenses)				5,096,864	5,415,697
Increase in net assets, before capital contribution				3,957,976	4,375,749
Capital contribution				154,718	-
Increase in net assets				4,112,694	4,375,749
Prior period adjustments				-	-
Net assets at beginning of year				34,800,650	30,424,901
Net assets at end of year				\$ 38,913,344	\$ 34,800,650

Financial Operation Highlights

Revenues: 2007 operating revenues amounted to \$963,714. This is an increase of 9% from 2006. This increase was due to the increases in lease operations and airport operations being fully occupied in 2007. Total revenues (including all non-operating revenues and capital contributions) amounted to \$6,220,863 in 2007.



- Expenditures:** 2007 year-to-date total expenditures are \$2,108,170, which is approximately \$169,000 more than the 2006 total expenditures, or 8.8% increase from 2006. This increase is primarily due to rising cost of health care, insurance and general cost of living increases noted nationwide.



ECONOMIC FACTORS

U.S. Economic Outlook:

Marina: The Port started construction of a new marina in the latter part of 2006. The Marina was 100% completed in December of 2007. The Tri-Cities is a large boating community with over 10,000 registered boaters and there are very limited marinas. Port studies show a new

marina will result in increased revenue for the Port. The projected revenue for 2008 is approximately \$299,600 annually which is a 109% increase in marina revenue from 2007 year. This increase is primarily due to the increase in slips, increase in slip sizes, increase in moorage rates and fully occupied marina.

Clover Island Development Building: The Port has finalized a design for a new multi-tenant building that will house the Clover Island Yacht Club and two other committed tenants. This project is projected to cost the Port approximately \$3,000,000 and should be completed by the end of 2008. The projected revenues in 2009 when the building is fully occupied are \$119,000.

Tax Levy: Over the years, the Port of Kennewick has worked to minimize the Port's tax levy. We strive to keep the Port levy low. Our goal is to be able to offset operation cost and future economic development opportunities with revenue from tenants while keeping tax revenue well below the legal limit. Due to these efforts, the Port has decreased the levy rate from \$0.44 in 2001 to \$0.36 in 2008 which has resulted in an 18.2% decrease over the years. The difference between the 2007 year levy amount and the legal limit is \$551,436.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Port's finances and to show accountability of public funds. If you have any questions regarding this report, or need additional information please visit our Web site at www.portofkennewick.org or contact: Director of Finance-Auditor, 350 Clover Island Drive Suite 200, Kennewick, Washington 99336; Telephone (509) 586-7978; Fax (509) 582-7678.

Port of Kennewick

**STATEMENT OF NET ASSETS
December 31, 2007**

ASSETS

	<u>2007</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 61,447
Investments	4,424,569
Taxes receivable	90,162
Other receivables (net)	43,224
Prepaid expenses	8,269
Note and Interest Receivable	<u>107,567</u>
Total current assets	<u>4,735,238</u>
NONCURRENT ASSETS	
Restricted Assets	
Restricted Investments	829,234
Investments	1,812,013
Interest receivable	31,945
Note Receivable	501,317
Capital assets (Note 4)	
Property, plant and equipment	27,267,634
Land	7,746,772
Construction in progress	2,629,742
Less: Accumulated depreciation	<u>5,249,923</u>
Total noncurrent assets	<u>35,568,734</u>
TOTAL ASSETS	<u>\$ 40,303,972</u>

The notes to financial statements are integral part of this statement

Port of Kennewick

**STATEMENT OF NET ASSETS
December 31, 2007**

LIABILITIES AND NET ASSETS

					<u>2007</u>
CURRENT LIABILITIES					
	Warrants payable				\$ 221,844
	Accrued vacation payable				18,381
	Retainage under construction contracts				59,387
	Current portion of long-term debt				431,667
	Deferred revenue				9,101
	Customer deposits payable				28,584
				Total current liabilities	768,963
LONG-TERM LIABILITIES					
	Notes payable (due in more than one year)				621,667
				Total long-term liabilities	621,667
TOTAL LIABILITIES					1,390,630
NET ASSETS					
	Invested in capital assets, net of related debt				31,340,891
	Restricted for capital assets				829,234
	Unrestricted				6,743,217
TOTAL NET ASSETS					38,913,342
TOTAL LIABILITIES AND NET ASSETS					<u>\$ 40,303,972</u>

The notes to financial statements are integral part of this statement

Port of Kennewick

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS
For the Year Ended December 31, 2007**

	<u>2007</u>
OPERATING REVENUE	
Property lease/rental operations	\$ 755,435
Marina operations	142,888
Airport operations	65,391
Total operating revenues	<u>963,714</u>
OPERATING EXPENSES	
General operations	510,642
Maintenance	140,989
General and administration	893,046
Total before depreciation	<u>1,544,678</u>
Depreciation	557,923
Total operating expenses	<u>2,102,601</u>
Operating loss	(1,138,887)
NON OPERATING REVENUES (EXPENSES)	
Ad valorem tax revenue	2,686,830
Interest income	523,627
Gain on sale of assets	1,884,015
Other (net)	2,391
Total nonoperating revenues (expenses)	<u>5,096,863</u>
Increase in net assets, before capital contributions	<u>3,957,976</u>
Capital contributions	154,718
Increase in net assets	4,112,694
TOTAL NET ASSETS	
Beginning of the year	34,800,650
Prior period adjustments	-
End of the year	<u>\$ 38,913,344</u>

The notes to the financial statements are integral part of this statement.

Port of Kennewick

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2007</u>
Cash received from customers	\$ 947,228
Less: Cash outflows	
Supplier payments	1,310,603
Employee payments	670,643
Net cash used in operating activities	<u>(1,034,018)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Noncapital property taxes received	718,300
Non-operating receipts	7,960
Non-operating expenses	(5,569)
Net cash provided by non-operating financing activities	<u>720,691</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital property taxes received	1,982,023
Proceeds from sale of capital assets	2,182,909
Principal payments paid on capital debt	(31,667)
Acquisition and construction of capital assets	(12,024,741)
Cash received from other governments	154,718
Net cash provided by capital and related financing activities	<u>(7,736,758)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	7,154,793
Purchase of investments	(1,660,000)
Proceeds from contract installments	16,612
Interest and dividends on investments	503,710
Net cash provided by investing activities	<u>6,015,115</u>
Net increase in cash and cash equivalents	(2,034,970)
Cash and cash equivalents at beginning of year	6,520,986
Cash and cash equivalents at end of year	4,486,016

The notes to financial statements are integral part of this statement

Port of Kennewick

**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007**

(Concluded)

						<u>2007</u>
RECONCILIATION OF OPERATING LOSS TO NET						
CASH USED IN OPERATING ACTIVITIES						
Operating loss						\$(1,138,887)
Adjustments to reconcile operating loss to net cash						
used in operating activities:						
			Depreciation			557,923
			Increase in accounts receivable			(5,139)
			Increase in prepayments			(284)
			Decrease in customer deposits payable			(10,626)
			Decrease in warrants payable			(441,076)
			Increase in employee benefits payable			2,932
			Increase in retainage payable			1,861
			Decrease in deferred income			(721)
Net cash used in operating activities						\$(1,034,018)

The notes to financial statements are integral part of this statement

Port of Kennewick

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Kennewick was incorporated on April 12, 1915 and operates under the laws of the State of Washington applicable to public port districts. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Port has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance from 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 is a special purpose government and provides marina, non-commercial airport and property lease/rental operations to the general public and is supported primarily through user charges, property taxes and property sales.

The Port is governed by a three-member Board of Commissioners, elected by Port district voters. 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, which is a separate Economic Development corporation as discussed in Note #10. These financial statements present the Port's primary government.

B. Basis of Accounting And Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting and Reporting System for Classified Port Districts* in the State of Washington. Revenues and expenses related to the Port's principal operations are considered to be operating revenues and expenditures; while revenues and expenses related to capital, financing and investing activities are considered to be non-operating revenues and expenses.

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

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

The district 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 district are charges to customers for lease rents of the marina, airport and the Port's commercial, retail and industrial development buildings. Operating expenses for the district include (e.g., the cost of sales and services, administrative expenses, depreciation on capital assets, etc.). All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2007 the treasurer was holding \$4,486,016 in short-term residual investments of surplus cash. This amount is classified on the statement of net assets as cash and cash equivalents and investments under current assets.

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

2. 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 consists 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 assets sold and goods and services rendered. The Port of Kennewick entered into two contracts in 2006 where the Port established notes receivable and one contract in 2007. Two notes included land sales at the Dickerson property site and one note was for a land sale at the Oak Street property site.

The first note closed on June 7, 2006 in the amount of \$228,960 with \$10,000 down payment accruing an interest rate of six percent and payments of \$29,749.65 due annually for ten years. As of December 31, 2007 the outstanding balance is \$202,347.95

The second contract was closed on June 28, 2006 with \$1,500,000 down payment for a total beginning note payable amount of \$4,271,310 accruing interest at an annual rate of six percent. Payments are due annually in the amount of \$1,013,993.62 for five years. Due to the nature of this real estate contract, the land is not deeded over to the purchaser until payments are made. Therefore, this transaction is accounted for on an installment basis where revenue is recognized and the asset is removed when payments are received. The portion of the land that is not deeded to the purchaser is listed in the capital assets disclosed in the Statement of Net Assets.

The third note closed on June 1, 2007 with \$16,035.36 down payment leaving an outstanding balance of \$384,848.64 accruing interest at an annual rate of six percent. Payments are \$91,361.68 annually for five years.

3. Restricted Assets

These accounts contain resources for construction (including current and delinquent special assessments receivable, when applicable).

The restricted assets are composed of the following:

Industrial Development Fund	\$829,233.75
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4. Capital Assets and Depreciation See Note 4.

5. Compensated Absences

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

Vacation pay, which may be accumulated up to (max days 30), is payable upon separation from Port service. There is no compensation for accrued sick leave.

6. Long-Term Debt See Note 8.

7. Deferred Credits

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

NOTE 2 – DEPOSITS AND INVESTMENTS

The Port's deposits and certificates of deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). Under State law, public depositories under the WPDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. As a result, deposits covered by collateral held in the multiple financial institution collateral pool are considered to be insured. State law requires that deposits may only be made with institutions that are approved by the WPDPC.

All Port investments are obligations of the U.S. Government and its agencies. Certificates of deposits with Washington State banks and savings and are placed with or through qualified public depositories of the State of Washington. The investments in certificates of deposits and multiple financial institutions are protected under the Washington Public Protection Act and are backed by full faith and credit of the U.S. Government.

The Port had not adopted a formal investment policy; however, the Port is required to use the Benton County Treasurer, who acts as the Ports fiscal treasurer, has adopted a formal investment policy. Investments are reported at fair value and are either insured, registered, or held by the Port or its agent in the Port's name. It is management's intent to hold securities until maturity.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Port's investment guideline is to maximize investment return while preserving liquidity. To the extent possible, the Port will attempt to match

its investments with anticipated cash flow requirements using the specific identification method.

Custodian risk is the risk that in the event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. Of the Port's total deposits and investments of \$7,127,263 in 2007, \$0 is exposed to custodial and the Port has no derivatives.

As of December 31, 2007 the Port had the following insured investments with maturities three months to one year:

<u>Investment</u>	<u>Value</u>
Certificates of Deposit	\$1,812,013

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 \$0.45 per \$1,000 assessed valuation for general governmental services. 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 district's regular levy for 2007 was \$0.372 per \$1,000 on an assessed valuation of \$7,147,911,877 for a total regular levy of \$2,665,124. In 2006 the regular tax levy was \$2,520,049.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

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

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

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purpose for which the assets were acquired, and has included such assets within the applicable account.

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

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

During 2007 the Port did not borrow any funds to finance the construction of capital assets, however, in 2008 the Port borrowed \$3,000,000 to reimburse the Clover Island Marina construction project.

The Port's policy is to capitalize all asset additions greater than \$1,000 and with an estimated life of more than one year. 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 1 to 50 years.

B. Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance 1/1/2007	Deletions	Additions	Ending Balance 12/31/2007
Capital assets, not depreciated:				
Land	\$ 6,133,300	\$ 326,947	1,940,419	\$ 7,746,772
Construction in progress	3,787,011	1,517,203	359,933	2,629,741
Total capital assets, not depreciated	9,920,311	1,844,150	2,300,352	10,376,513
Capital assets, depreciated:				
Buildings	8,572,130	-	10,993,885	19,566,015
Improvements other than buildings	7,363,711	382,362	159,509	7,140,857
Machinery and equipment	534,838	37,284	63,208	560,762
Total capital assets, depreciated	16,470,679	419,647	11,216,602	27,267,634
Total accumulated depreciation	4,916,164	224,164	557,923	5,249,923
Total capital assets depreciated (net)	11,554,515	195,484	10,658,679	22,017,711
Total capital assets, depreciated and not depreciated, (net)	\$ 21,474,826	\$ 2,039,633	\$ 12,959,031	\$ 32,394,224

C. Construction Commitments

The Port has several active construction projects as of December 31, 2007. The projects included the new Marina, FBO Painting, and Port Retail/Office Tenant Improvements, Vista Field Hangar Painting, Hedges Rail Repair and retainage on the Clover Island Roadway project. The Port has the funding available to pay all Port commitments listed.

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

Project	Spent to Date	Remaining Commitment
Clover Island Marina	\$ 9,664,527.99	\$ -
Painting of FBO	\$ 9,809.92	\$ 545.00
Tenant Improvements - Port Retail/Office	\$ 135,716.48	\$ 2,978.35
Vista Field Hangar Painting	\$ 74,704.49	\$ 3,615.90
Clover Island Roadway Project	\$ 1,023,161.50	\$ 49,523.79
Hedges Rail Repair	\$ 35,798.62	\$ 1,732.75

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 6 – PENSION PLANS

Substantially all Port of Kennewick'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 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 defined benefit 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. 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 benefit 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 per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in their defined benefit portion of their plan after ten years of service; or after five years 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 at age 55 with 10 years of service. 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. 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 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	51,004
Total	246,754

Funding Policy

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

contributions finance the defined benefit portion of the plan, and member contributions finance the 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. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	3.69% **	3.69%	3.69% ****
Employee	6.00% ***	3.50%	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 5.44%.

*** The employee rate for state elected officials is 7.50%.

**** Plan 3 defined benefit portion only.

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

Both Port of Kennewick and the employees made the required contributions. The Port of Kennewick required contributions for the years ended December 31 were as follows

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$0	\$44,260	\$0
2006	\$0	\$12,548	\$1,124
2005	\$0	\$7,543	\$749
2004	\$630	\$4,248	\$424
2003	\$680	\$5,080	\$0
2002	\$1,364	\$3,732	\$0

NOTE 7 – RISK MANAGEMENT

The Port maintains insurance against most normal hazards except for unemployment insurance.

General liability coverage is in effect to a limit of \$2,000,000 per general aggregate or \$1,000,000 per each occurrence with a \$0 deductible. Excess liability coverage is in effect with a limit of \$30,000,000 over the first \$1,000,000 of loss.

The Port has blanket coverage for commercial property with a loss limit of \$12,165,730 with a deductible of \$25,000 is in effect. In addition, the Port maintains standard business automobile, public employee and elected official dishonesty, construction, and boiler and machinery coverage.

The Port provides medical, vision, dental, life, and short-term disability insurance coverage for Port employees through Washington State Health Care Authority. The Port does not administer any of these plans.

The Port has elected to become self-insured for unemployment insurance. At December 31, 2007, reserves to cover unemployment insurance costs approximated \$48,306. No unemployment claims are outstanding as of December 31, 2007.

NOTE 8 – LONG-TERM DEBT AND LEASES

A. Notes Payable

As of December 31, 2007, notes payable included a \$253,332 noninterest-bearing loan obtained from Washington State Community Economic Revitalization Board (CERB). The Port used the CERB notes payable funding for infrastructure improvements that spurred economic development opportunities for our tenant in which the tenant reimburses the Port the annual payment each year. Total amount available to the Port from CERB was \$475,000. Fifteen annual payments (of \$31,667) are due, which started as of January 1, 2001, with a final payment due January 1, 2015.

In December 2007 the Port purchased two hangars located at the Vista Field Airport. The Port’s down payment was \$200,000 for each hangar and entered into a contract payable in the amount of \$400,000 each with no interest. The total amount due is \$800,000 payable in two installments. The first payment is due on May 2008 and the final payment is due on December 2009.

The annual requirements to maturity are as follows:

Years Ending December 31,	Principal	Interest	Total
2008	431,666.67	-	431,666.67
2009	431,666.67	-	431,666.67
2010	31,666.67	-	31,666.67
2011	31,666.67	-	31,666.67
2012	31,666.67	-	31,666.67
2013 - 2016	94,998.96	-	94,998.96
Total	\$ 1,053,332.31	\$ -	\$ 1,053,332.31

The Port’s legal debt margin without a vote as of December 31, 2007, is \$29,374,391.

B. Changes in Long-Term Liabilities

During the year ended December 31, 2007, the following changes occurred in long-term liabilities:

	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007	Within One Year
Notes payable	\$ 284,999	\$ 800,000.00	\$ (31,667)	\$ 1,053,332	\$ 431,667

On January 16, 2008 the Port borrowed \$3,000,000 from the line of credit issued in 2006. Currently only interest payments are due on the three (3) year line of credit. The Port plans to repay the line of credit by revenues from property taxes and/or land sale proceeds. Furthermore, due to low interest rates, the Port may look at refinancing the line of credit for a fixed long term which may be more beneficial to the Port. As of February 2007 the line of credit has a tax exempt rate of 2.7%.

NOTE 9 – CONTINGENCIES AND LITIGATION

The Port's financial statements included all material liabilities. There are no material contingent liabilities to record.

As discussed in Note 8 the Port is contingently liable for repayment of the CERB note payable. This liability is a zero percent interest loan and is reimbursed to the Port by the tenant.

As discussed in Note 4 the Port participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. As of December 31, 2007 there are no requests for reimbursements to grantor agencies. Port management believes that such disallowances, if any, will be immaterial.

NOTE 10 – CAPITAL CONTRIBUTIONS

The Port received the following capital contributions in 2007:

Interagency for Outdoor Recreation	\$129,905
Global Spill Containment	12,815
Washington State Dept. of Transportation	6,347
Historic Downtown Association	5,650

NOTE 11 – FORMATION OF PUBLIC CORPORATION

The Port of Kennewick Economic Development Corporation was formed in January 5, 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 Kennewick also serve as directors of the Port of Kennewick Economic Development Corporation.

2007 Revenues of the Port of Kennewick Economic Development Corporation amounted to \$3.20 and Expenditures amounted to \$0. Then accounts ending fund balance is approximately \$145.



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.

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