Washington State Auditor's Office

Financial Statements Audit Report

Klickitat County Port District No. 1 (Port of Klickitat)

Audit Period
January 1, 2004 through December 31, 2006

Report No. 74799

Issue Date
June 9, 2008

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

June 9, 2008

Board of Commissioners
Port of Klickitat
Bingen, Washington

Report on Financial Statements

Please find attached our report on the Port of Klickitat'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

Table of Contents

Port of Klickitat
Klickitat County
January 1, 2004 through December 31, 2006

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

Port of Klickitat
Klickitat County
January 1, 2004 through December 31, 2006

Board of Commissioners
Port of Klickitat
Bingen, Washington

We have audited the financial statements of the Port of Klickitat, Klickitat County, Washington, as of and for the years ended December 31, 2006, 2005, and 2004, and have issued our report thereon dated January 8, 2008.

We conducted our audits 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 audits, we considered the Port's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 8, 2008

Independent Auditor's Report on Financial Statements

Port of Klickitat
Klickitat County
January 1, 2004 through December 31, 2006

Board of Commissioners
Port of Klickitat
Bingen, Washington

We have audited the accompanying financial statements of the Port of Klickitat, Klickitat County, Washington, for the years ended December 31, 2006, 2005, and 2004. These financial statements are the responsibility of the Port's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinions.

As described in Note 1 to the financial statements, the Port prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Port of Klickitat, for the years ended December 31, 2006, 2005, and 2004, on the basis of accounting described in Note 1.

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 audits.

Our audits were performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 8, 2008

Financial Section

Port of Klickitat
Klickitat County
January 1, 2004 through December 31, 2006

FINANCIAL STATEMENTS

SUPPLEMENTAL INFORMATION

MCAG No. 1741 Statement C-1

PORT OF KLICKITAT
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
ARISING FROM CASH TRANSACTIONS
For the Years Ended December 31, 2006, 2005, and 2004

	12/31/2006	12/31/2005	12/31/2004
OPERATING REVENUES:			
Marine terminal operations	22,660	21,486	25,871
Property lease/rental operations	451,208	419,859	298,497
Other: sale of water	14,819	14,024	11,380
Total Operating Revenues	488,687	455,369	335,748
OPERATING EXPENSES:			
General operations			
Maintenance	142,413	98,852	100,602
General and administrative (781 + 783 - 785)	248,618	223,947	221,718
Other:			
Total Operating Expenses	391,031	322,799	322,320
Income (Loss) from Operations	97,656	132,570	13,428
NONOPERATING REVENUES (EXPENSES):			
Interest income	33,800	20,884	9,273
Federal/state/local grants and contracts	775,000	31,867	17,498
Taxes levied for:			
General purposes (Note 3)	174,359	177,066	161,653
Debt service principal/interest (Note__)	0	0	0
Debt Proceeds -CERB loan-Bldg 1E	525,000	0	0
Debt Proceeds -'06 LTGO Bonds-Bldg 1E	1,100,000	0	0
Debt Proceeds -CERB loan-Bldg 1D	0	0	650,000
Debt Proceeds - '03 LTGO Bonds	0	0	0
Sale of capital assets	0	3,134	64,492
Purchase of capital assets	(2,119,679)	(82,057)	(999,856)
Principal paid on long-term debt	(80,685)	(79,446)	(61,214)
Interest paid on long-term debt	(67,578)	(69,867)	(71,437)
Election expense	0	(3,324)	0
Other nonoperating revenues (expenses) See attached Sch. 04A	79,035	65,488	49,462
Total Nonoperating Revenues (Expenses)	419,252	63,745	(180,129)
Net increase (decrease) in net cash and investments	516,908	196,315	(166,701)
Beginning balance of net cash and investments	856,187	659,872	826,573
ENDING BALANCE OF NET CASH AND INVESTMENTS	$1,373,095	$856,187	$659,872

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

Port of Klickitat
Notes to the Financial Statements
Year Ended December 31, 2006

Note 1 – Summary of Significant Accounting Policies

The Port of Klickitat was created in 1945 and operates under the laws of the state of Washington applicable to a public port district.

1. Reporting Entity

   The Port of Klickitat is a special purpose government that provides marine terminal, marina, and industrial park facilities and services to the general public. Port operations are supported by user charges, ad valorem property taxes levied for operations, capital improvements and debt service, and other miscellaneous taxes. An elected three-member board governs the Port.

   The following is an identification of the significant policies, including an identification of those policies which result in a material departure from generally accepted accounting principles (GAAP).

2. Basis Of Accounting And Reporting

   The accounting records of the Port of Klickitat 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 (BARS) for Unclassified Port Districts.

   The accounts of the Port are maintained on the basis of funds. For reporting purposes, the activities of all the Port's funds are combined.

   The Port uses the cash basis at accounting where revenues are recognized only when received and expenses are recognized when paid.

3. Cash - It is the Port's policy to invest all temporary cash surpluses. The amount is reported on the statement of revenues and expenses arising from cash transactions as net cash and investments.

4. Deposits - The Port's deposits are covered by the Federal Deposit Insurance Corporation.

5. Capital Assets - Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are recorded as expenses when purchased. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs, and minor renewals are accounted for as expenses when paid.

6. Investments - See Note #2.

7. Compensated Absences - Vacation pay may be accumulated to a maximum amount which is limited to the employee's amount of vacation hours accrued during a 24-month period, (which may not exceed 240 hours) and is payable upon separation or retirement.

   Sick leave may accumulate up to 1,056 hours. Upon separation or retirement, employees do receive payment of unused sick leave up to a maximum of 120 hours.

   Compensatory leave time may accumulate up to 80 hours per hourly employee, unless approved by both the employee and Port manager. The employee may elect to receive compensatory time off instead of cash payment for overtime pay (both are computed at 1.5 times the hours worked).

8. Long-Term Debt - See Note #4.

9. Risk Management -

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

The Pool was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool now services health districts, port districts, public utility districts, water districts, sewer districts, irrigation districts, reclamation districts, diking districts, drainage districts, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park & recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations, and quasi-municipal corporations.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of $500,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a “per occurrence” $500,000 deductible on liability loss, $100,000 deductible on property loss, and $5,000 deductible on boiler and machinery loss. The member is responsible for the first $1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining $499,000 on liability losses, $99,000 on property loss, $4,000 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Intergovernmental Contract is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Intergovernmental Contract.

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

A Board of Directors consisting of seven (7) board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

NOTE 2 - INVESTMENTS

Investments - The Port's investments are either insured, registered or held by the Port or its agent in the Port's name. Investments by type at December 31, 2006 are as follows:

Type of Investment	Balance
Local Government Investment Pool	$1,145,902.38
Local Government Investment Pool-Restricted	$197,681.62
Cash With Klickitat County Treasurer Or in Banks	$29,511.44

2. Derivatives and Similar Transactions - The Port held no derivatives or similar transactions.

NOTE 3 - PROPERTY TAXES

The county Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month. Property tax revenues are recognized when cash is received by the Port. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied. The Port's regular levy for 2006, as estimated by the Klickitat County Assessor, was $0.18921432 per $1,000 on an assessed valuation of $901,010,013 for a total regular levy of $170,484.

NOTE 4 - LONG-TERM DEBT AND CAPITAL LEASES

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the Port and summarizes the Port's debt transactions for 2006. More detailed listings of long-term debt are attached as Exhibits "A" and "B". A summary of the debt service requirements, including interest (and capital lease payments) are as follows:

Year	General Obligation Bonds	Other Debt	Total Debt Service Payments
2007	$ 194,761	$ 58,671	$ 253,432
2008	198,311	58,671	256,982
2009	196,556	58,671	255,227
2010	194,666	105,551	300,217
2011	1,128,406	105,551	1,233,958
2012-2016	446,800	662,508	1,109,308
2017-2021	444,538	534,266	978,803
2022-2026	89,675	327,901	417,576
2027	0	37,452	37,452
TOTAL	$ 2,893,712	$ 1,949,242	$ 4,842,954

As of December 31, 2006 the Klickitat County Treasurer was holding $65.45 in a 1970 Bond Reserve Fund-Inv (of which the bonds have been defeased).

1970 (Defeased) Revenue Bonds

Balance 12/31/05	$ 15,000.00
Redeemed in 2006	< 0.00>
Balance 12/31/06	$ 15,000.00

Limited-Tax General Obligation Bonds	Outstanding
2003 Bingen Point Bldg 1D, $1,100,000 1.5 - 5.5%, Variable interest semi-annually and variable principal annually to 2022	$ 950,000
2006 Bingen Point Bldg 1E, $1,100,000 7%, Interest and principal annually with payoff in 2011	$ 1,100,000

The Port has assessed an Industrial Development District levy for repayment of debt and new infrastructure improvements under RCW 53.35.110 and 53.36.100, in the amount of $.45 per $1,000 valuation. The levy will run for a period of six (6) years, with revenues to be received 2007-2012.

SHORT TERM DEBT

As of December 31, 2006 the Port held no short-term debt.

NOTE 5 - CONSTRUCTION IN PROGRESS

Below are actual expenditures and approximated project completion costs (for the next five (5) years) associated with Construction in Progress projects. Financing for the completion of the projects will be secured via loans, grants or obtained from operational income.

PROJECT	Projected Budget	Funds Expended to 12/31/2006	Funds Still Committed	Required Future Financing
Bingen Point Development	$5,000,000	$1,180,666	$86,000	$3,733,334
Bingen Point Building 1D	2,495,461	2,361,162	134,299	$0
Bingen Point Building 1E	2,500,000	2,039,940	460,060	$0
DIP Infrastructure Eng/Const	3,500,000	207,357	70,000	$3,222,643
DIP Buildings	350,000	50,000	35,000	$265,000
	$13,845,461	$5,839,125	$785,359	$7,220,977

NOTE 6 - PENSION PLANS

Substantially all Port of Klickitat full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

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

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

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

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 the 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 Non-vested	51,004
Total	246,754

<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 at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The 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 Plan 1 state elected officials is 5.44%.
*** The employee rate for Plan 1 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 the Port and the employees made the required contributions. The Port's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2006	$0	$ 4,083.83	$0
2005	$0	$ 2,319.17	$0
2004	$0	$ 1,715.76	$0

NOTE 7 - CONTINGENCIES AND LITIGATION

In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

In various years, 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. Port management believes that such disallowances, if any, will be immaterial.

The Port constructed Building 1D a qualifying building for a tenant in 2004 and 2005, and entered into a five year lease for the premises. The Port obtained financing for the project from, among other sources, the State of Washington ("State") Community Economic Development Board ("CERB"). Under Ch. 82.60

RCW, and because the project is located in an area defined by the State as a depressed rural area, the project is eligible for a deferral of sales tax due on the building components and construction. If certain requirements are met, the deferred tax due is never paid and becomes an exemption from sales tax. See Ch. 82.60 RCW. The sales tax deferred and potentially exempted on this project is $134,299.

If the tenant does not remain in business with a certain number of employees using the building through 12/31/2011, then the Port will have to pay part or all of the sales tax due based on a sliding scale depending on the time when the conditions are no longer met. RCW 82.60.060 sets forth the repayment schedule which also corresponds to the forgiveness schedule under RCW 82.60.065 as follows:

December 31,	Amount
2004 – 2006	$134,299
2007	$120,869
2008	$100,724
2009	$ 73,864
2010	$ 40,290
Thereafter	$ 0

The Port has established a reserve fund to retire this contingent liability in the event it is required to be paid.

Additionally, the Port constructed Building 1E a qualifying building for a tenant in 2006 and 2007, and entered into a five year lease for the premises. The Port obtained financing for the project from, among other sources, the State of Washington (“State”) Community Economic Development Board (“CERB”). Under Ch. 82.60 RCW, and because the project is located in an area defined by the State as a depressed rural area, the project is eligible for a deferral of sales tax due on the building components and construction. If certain requirements are met, the deferred tax due is never paid and becomes an exemption from sales tax. See Ch. 82.60 RCW. The sales tax deferred and potentially exempted on this project has not yet been determined, pending an audit by the Department of Revenue when the project is deemed complete in June, 2007.

The potential liability will be similar to Building 1D, and after determined by the Department of Revenue, the Port will establish a reserve fund to retire this contingent liability in the event it is required to be paid.

Port of Klickitat
Notes to the Financial Statements
Year Ended December 31, 2005

Note 1 – Summary of Significant Accounting Policies

The Port of Klickitat was created in 1945 and operates under the laws of the state of Washington applicable to a public port district.

1. Reporting Entity

   The Port of Klickitat is a special purpose government that provides marine terminal, marina, and industrial park facilities and services to the general public. Port operations are supported by user charges, ad valorem property taxes levied for operations, capital improvements and debt service, and other miscellaneous taxes. An elected three-member board governs the Port.

   The following is an identification of the significant policies, including an identification of those policies which result in a material departure from generally accepted accounting principles (GAAP).

2. Basis Of Accounting And Reporting

   The accounting records of the Port of Klickitat 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 (BARS) for Unclassified Port Districts.

   The accounts of the Port are maintained on the basis of funds. For reporting purposes, the activities of all the Port's funds are combined.

   The Port uses the cash basis at accounting where revenues are recognized only when received and expenses are recognized when paid.

3. Cash - It is the Port's policy to invest all temporary cash surpluses. The amount is reported on the statement of revenues and expenses arising from cash transactions as net cash and investments.

4. Deposits - The Port's deposits are covered by the Federal Deposit Insurance Corporation.

5. Capital Assets - Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are recorded as expenses when purchased. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs, and minor renewals are accounted for as expenses when paid.

6. Investments - See Note #2.

7. Compensated Absences - Vacation pay may be accumulated to a maximum amount which is limited to the employee's amount of vacation hours accrued during a 24-month period, (which may not exceed 240 hours) and is payable upon separation or retirement.

   Sick leave may accumulate up to 1,056 hours. Upon separation or retirement, employees do receive payment of unused sick leave up to a maximum of 120 hours.

   Compensatory leave time may accumulate up to 80 hours per hourly employee, unless approved by both the employee and Port manager. The employee may elect to receive compensatory time off instead of cash payment for overtime pay (both are computed at 1.5 times the hours worked).

8. Long-Term Debt - See Note #4.

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

The Pool was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool now services health districts, port districts, public utility districts, water districts, sewer districts, irrigation districts, reclamation districts, diking districts, drainage districts, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park & recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations, and quasi-municipal corporations.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $50 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a “per occurrence” $500,000 deductible on liability loss, $100,000 deductible on property loss, and $5,000 deductible on boiler and machinery loss. The member is responsible for the first $1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining $499,000 on liability losses, $99,000 on property loss, $4,000 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the pool for a minimum of three (3) years and must give notice 60 days before terminating participation. Members joining after October 2000 join the pool with one (1) full fiscal year commitment and must give notice six (6) months before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three (3) year period. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

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

A Board of Directors consisting of seven (7) board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

The Port purchased named position bonds for all employees having bank signatory authority, rather than a dishonesty blanket bond.

NOTE 2 - INVESTMENTS

Investments - The Port's investments are either insured, registered or held by the Port or its agent in the Port's name.

Investments by type at December 31, 2005 are as follows:

Type of Investment	Balance
Local Government Investment Pool	$528,841.00
Local Government Investment Pool – restricted	$184,079.00
Cash with Klickitat County Treasurer Or in Banks	$143,266.62

2. Derivatives and Similar Transactions - The Port held no derivatives or similar transactions.

NOTE 3 - PROPERTY TAXES

The county Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month. Property tax revenues are recognized when cash is received by the Port. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied. The Port's regular levy for 2005, as estimated by the Klickitat County Assessor, was $0.205867 per $1,000 on an assessed valuation of $844,553,687 for a total regular levy of $173,865.

NOTE 4 - LONG-TERM DEBT AND CAPITAL LEASES

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the Port and summarizes the Port's debt transactions for 2005. More detailed listings of long-term debt are attached as Exhibits "A" and "B". A summary of the debt service requirements, including interest (and capital lease payments) are as follows:

Year	General Obligation Bonds	Other Debt	Total Debt Service Payments
2006	$ 89,593	$ 58,671	$ 148,264
2007	88,333	58,671	147,004
2008	91,883	58,671	150,554
2009	90,128	58,671	148,799
2010	88,328	105,551	193,789
2011-2015	450,550	505,768	956,318
2016-2021	442,925	375,157	818,082
2021-2025	178,750	93,761	272,511
TOTAL	$ 1,520,398	$ 1,314,922	$ 2,835,319

As of December 31, 2005 the Klickitat County Treasurer was holding $65.45 in a 1970 Bond Reserve Fund-Inv (of which the bonds have been defeased).

<u>1970 (Defeased) Revenue Bonds</u>

Balance 12/31/03	$15,000.00
Redeemed in 2004	< 0.00
Balance 12/31/04	$15,000.00

<u>Limited-Tax General Obligation Bonds</u>	<u>Outstanding</u>
2003 Bingen Point Bldg 1D, $1,100,000 1.5 - 5.5%, Variable interest semi-annually and variable principal annually to 2022	$ 990,000

<u>SHORT TERM DEBT</u>

As of December 31, 2005 the Port held no short-term debt.

NOTE 5 - CONSTRUCTION IN PROGRESS

Below are actual expenditures and approximated project completion costs (for the next five (5) years) associated with Construction in Progress projects. Financing for the completion of the projects will be secured via loans, grants or obtained from operational income.

PROJECT	Projected Budget	Funds Expended to 12/31/2005	Funds Still Committed	Required Future Financing
Bingen Point Development	$5,000,000	$1,175,724	$50,000	$3,774,276
Bingen Point Building 1D	2,495,461	2,361,162	134,299	0
Bingen Point Building 1E	2,000,000	24,602	1,675,398	300,000
DIP Infrastructure Eng/Const	3,500,000	207,357	7,000	3,285,643
	$12,995,461	$3,768,845	$1,866,697	$7,359,919

NOTE 6 - PENSION PLANS

In 1995, the Port Commission authorized participation for the Port's present eligible employees to enter into the Public Employees Retirement System. At that time, the Port elected to pay PERS the employer=s portion of prior service credits for Port employees (amounting to $11,454) at an installment rate over 15 years. One employee did not satisfy his employee’s portion of his prior service credits prior to separating from service, so the Port was servicing his expense of $3,995.01, in addition to the employer's obligation, at an installment rate over 15 years. The outstanding balance was paid to PERS in full on December 30, 2005 in the amount of $5,361.09.

Substantially all Port of Klickitat 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 a cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

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

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

<u>Plan Description</u>

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 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 per year of service. The average final compensation is based on the greatest 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 actuarial valuation date for the plans as of September 30, 2004 (the most recent data available):

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 Non-vested	54,081
Total	239,913

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. 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 arc 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, 2005, were as follows:

	PERS Plan I	PERS Plan II	2.44
Employer *	2.44%	2.44%	1.38% **
Employee	6.00%	2.25%	***

* 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 the PERS 3 member.

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

	PERS Plan I	PERS Plan II	PERS Plan III
2005	$0	$2,319.17	$0
2004	$0	$1,715.76	$0

NOTE 7 - CONTINGENCIES AND LITIGATION

In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

In various years, 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. Port management believes that such disallowances, if any, will be immaterial.

The Port entered into a contract to construct Building 1D for Insitu, Inc. in 2003. The Building was constructed in an area that qualified for a deferral of sales taxes due on its construction. The deferral will become a permanent exemption if Insitu, Inc. remains in the Building and submits an annual survey to the Washington State Dept. of Revenue through December 31, 2011. If the State requirements are not met, the Port will have to pay some or all of the sales taxes deferred. The contingent liability of the Port for these deferred sales taxes is as follows:

December 31,	Amount
2004 – 2006	$134,299
2007	$120,869
2008	$100,724
2009	$73,864
2010	$40,290
Thereafter	0

The Port has established a reserve fund to retire this contingent liability in the event it is required to be paid, and it reports this fund as a separate line item in its cash position report.

PORT OF KLICKITAT1
Notes to Financial Statements
January 1, 2004 through December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Klickitat (the "Port"), was incorporated in 1945 and operates under the laws of the State of Washington applicable to public port districts.

1. Reporting Entity - The Port of Klickitat is a special purpose government entity which provides marine terminal, marina and industrial park facilities and services to the general public. Port operations are supported through a combination of user charges, ad valorem taxes levied for operations, capital improvements and debt service, and timber taxes.

The following is a summary of the more significant policies, including identification of those policies which result in material departures from generally accepted accounting principles.

2. Basis of Accounting and Presentation - The accounting records of the Port of Klickitat 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 (BARS) for Proprietary-Type Districts (unclassified).

The accounts of the Port are maintained on the basis of funds. For reporting purposes, the activities of all the Port's funds are combined.

The Port uses the cash basis at accounting where revenues are recognized only when received and expenses are recognized when paid.

3. Cash - It is the Port's policy to invest all temporary cash surpluses. The amount is included on the statement of revenues and expenses arising from cash transactions as net cash and investments.

4. Deposits - The Port's deposits are covered by the Federal Deposit Insurance Corporation.

5. Fixed Assets - Major expenses for fixed assets, including capital leases and major repairs that increase useful lives, are recorded as expenses when purchased. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs, and minor renewals are accounted for as expenses when paid. (Obligations under capital leases are disclosed in Note #4).

6. Investments - See Note (Investments Note #2)

7. Compensated Absences - Vacation pay may be accumulated to a maximum amount which is limited to the employee's amount of vacation hours accrued during a 24-month period, (which may not exceed 240 hours) and is payable upon separation or retirement.

Sick leave may accumulate up to 1,056 hours. Upon separation or retirement, employees do receive payment of unused sick leave up to a maximum of 120 hours.

Compensatory leave time may accumulate up to 80 hours per hourly employee, unless approved by both the employee and Port manager. The employee may elect to receive compensatory time off instead of cash payment for overtime pay (both are computed at 1.5 times the hours worked).

8. Long-Term Debt - See Note (Long-Term Debt and Capital Leases Note #4)

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

The Pool was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool now services health districts, port districts, public utility districts, water districts, sewer districts, irrigation districts, reclamation districts, diking districts, drainage districts, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park & recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations, and quasi-municipal corporations.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $50 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a "per occurrence" $500,000 deductible on liability loss, $100,000 deductible on property loss, and $5,000 deductible on boiler and machinery loss. The member is responsible for the first $1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining $499,000 on liability losses, $99,000 on property loss, $4,000 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the pool for a minimum of three (3) years and must give notice 60 days before terminating participation. Members joining after October 2000 join the pool with one (1) full fiscal year commitment and must give notice six (6) months before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three (3) year period. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

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

A Board of Directors consisting of seven (7) board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

Due to the extremely low risk factor, the Port elected to purchase named position bonds for all employees having bank signatory authority, rather than a dishonesty blanket bond. The Port experienced no claims in 2003, and anticipates none in 2004.

NOTE 2 - INVESTMENTS

1. Investments - The Port's investments are either insured, registered or held by the Port or its agent in the Port's name.

Investments by type at December 31, 2004 are as follows:

Type of Investment	Balance
Local Governmental Investment Pool (L.G.I.P.)	
L.G.I.P. - General	$ 497,643
L.G.I.P. - `70 Bond (Defeased) Reserve Fund	$ 27,920
L.G.I.P. - Security Deposits-Property Rentals	$ 5,302
L.G.I.P. – Resv For Bldg 1D Sales Tax	$ 72,055

2. **Derivatives and Similar Transactions** - The Port held no derivatives or similar transactions.

NOTE 3 - PROPERTY TAXES

The county Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month. Property tax revenues are recognized when cash is received by the Port. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied. The Port's regular levy for 2004, as estimated by the Klickitat County Assessor, was $0.229636957 per $1,000 on an assessed valuation of $691,663,886 for a total regular levy of $158,832.

NOTE 4 - LONG-TERM DEBT AND CAPITAL LEASES

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the Port and summarizes the Port's debt transactions for 2004. More detailed listings of long-term debt are attached as Exhibits "A" and "B". The debt service requirements, including interest (and capital lease payments) are as follows:

	G.O. Bonds	Other Debt	Total Debt Pmts
2005	90,643	58,671	149,314
2006	89,593	58,671	148,264
2007	88,333	58,671	147,004
2008	91,883	58,671	150,554
2009	90,128	58,671	148,798
2010-2014	448,177	527,755	975,932
2015-2019	445,339	383,686	829,025
2020-2024	266,950	262,551	529,501
TOTALS	$1,611,046	$1,467,347	$3,078,392

As of December 31, 2004 the Klickitat County Treasurer was holding $27,920 in a 1970 Bond Reserve Fund-Inv (of which the bonds have been defeased). These funds are expected to fund the redemption of the 1970 bonds which have been called.

1970 (Defeased) Revenue Bonds	
Balance 12/31/03	$ 15,000.00
Redeemed in 2004	< 0.00
Balance 12/31/04	$ 15,000.00

Limited-Tax General Obligation Bonds	Outstanding
2003 Bingen Point Bldg 1D, $1,100,000 1.5 - 5.5%, Variable interest semi-annually and variable principal annually to 2022	$1,030,000

SHORT TERM DEBT

As of December 31, 2004 the Port held no short-term debt.

NOTE 5 - CONSTRUCTION IN PROGRESS

Below are actual expenditures and approximated project completion costs (for the next five (5) years) associated with Construction in Progress projects. Financing for the completion of the projects will be secured via loans, grants or obtained from operational income.

Project	Projected Budget	Funds Expended 1/1-12/31/04	Funds Still Committed	Required Future Financing
Bingen Point Development	104,800	9,419	36,442	300,000
Bingen Point Building 1D	1,020,900	949,247	71,653	0
DIP Infrastructure Eng/Const	13,608	16,813	0	2,500,000
Totals	$1,139,308	$975,479	$108,095	$2,800,000

NOTE 6 - PENSION PLANS

In 1995, the Port Commission authorized participation for the Port's present eligible employees to enter into the Public Employees Retirement System. At that time, the Port elected to pay PERS the employer=s portion of prior service credits for Port employees (amounting to $11,454) at an installment rate over 15 years. One employee did not satisfy his employee=s portion of his prior service credits prior to separating, so the Port is servicing his expense of $3,995.01 at an installment rate over 15 years. The adjusted monthly payment due is $91.98 and the outstanding balance on December 31, 2004 was $6,372.87.

Substantially all Port of Klickitat 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 System (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.*

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 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 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 per year of service. The average final compensation is based on the greatest 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 Non-vested	54,081
Total	**239,913**

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 at 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 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, 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 the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2004	$0	$1,715.76	$0
2003	$0	$1,589.58	$0
2002	$0	$1,500.93	$0

NOTE 7 - CONTINGENCIES AND LITIGATIONS

In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

In various years, 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. Port management believes that such disallowances, if any, will be immaterial.

The Port=s employee=s share of their PERS prior service credits was $3,769.62 as of December 31, 2004, which is addressed in Note 6 - Pension Plans.

NOTE 8 - OTHER DISCLOSURES

The Port executed a building/property sale September 18, 1997, in the amount of $352,767 which granted a Real Estate Contract in the amount of $309,319 requiring monthly payments of $5,000 for principal and interest beginning October 1, 1997, at a rate of 10% interest. The contract balance, originally due to be paid in full by October 1, 2004, was paid in full on July 14, 2004.

MCAG No 1741 **Schedule 09**

PORT OF KLICKITAT

SCHEDULE OF LONG-TERM DEBT

For Year Ended December 31, 2006

X G.O. Debt
Revenue Debt
Refunded Debt

I.D. No.	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	(1) BEGINNING OUTSTANDING DEBT 01/01/06 (ENDING OUTSTANDING DEBT BALANCE FROM PRIOR YEAR)	(2) AMOUNT ISSUED IN CURRENT YEAR	(3) AMOUNT REDEEMED IN CURRENT YEAR	(4) ENDING OUTSTANDING DEBT 12/31/06 (1)+(2)-(3)
263.82	CTED-CERB LOAN - B.Pt. Infra	1992-Drawn `95	01/01/15	$69,196	$0	$5,763	$63,434
263.82	CTED-CERB LOAN - B.Pt. SBDC Bldg.	1993	07/01/14	171,207	0	16,853	$154,354
263.82	CTED-CERB LOAN - B.Pt. Phase 1, Bldg. 1B	2000	01/01/20	336,063	0	18,069	$317,994
263.82	CTED-CERB LOAN - B.Pt. Phase 1, Bldg. 1D	2004	07/01/24	650,000	0	0	$650,000
263.82	CTED-CERB LOAN - B.Pt. Phase 1, Bldg. 1E	2006	01/01/27	0	525,000	0	$525,000
	`03 LTGO BONDS	2003	12/1/2022	990,000	0	40,000	$950,000
	06 LTGO BONDS	2006	10/17/2011	0	1,100,000	0	$1,100,000
	TOTAL G.O. DEBT			$2,216,466	$1,625,000	$80,685	$3,760,782
			*Rounding +1.00				

MCAG No. 1741 **Port of Klickitat** Schedule 09

Schedule of Long-Term Debt
G.O. Debt Schedule
For Year Ending December 31, 2005

ID No.	Purpose	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt 1/1/2005	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2005
263.82	CTED – CERB Loan: Bingen Point Infrastructure	1995	1/1/2015	$74,737	0	$5,542	$69,169
263.82	CTED – CERB Loan: Bingen Point SBDC Building	1993	7/1/2014	187,569	0	16,362	171,207
263.82	CTED – CERB Loan: Bingen Point Phase 1 Bldg 1B	2000	1/1/2020	353,606	0	17,543	336,063
263.82	CTED – CERB Loan: Bingen Point Phase 1 Bldg. 1D	2004	7/1/2024	650,000	0	0	650,000
	2003 LTGO Bonds	2003	12/1/2022	1,030,000	0	40,000	990,000
	TOTAL GO DEBT			$2,295,912			$2,216,466

MCAG No 1741 **Schedule 09**

PORT OF KLICKITAT

SCHEDULE OF LONG-TERM DEBT

For Year Ended December 31, 2004

X G.O. Debt
Revenue Debt
Refunded Debt

I.D. No.	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	(1) BEGINNING OUTSTANDING DEBT 1/1/20/04 (ENDING OUTSTANDING DEBT BALANCE FROM PRIOR YEAR)	(2) AMOUNT ISSUED IN CURRENT YEAR	(3) AMOUNT REDEEMED IN CURRENT YEAR	(4) ENDING OUTSTANDING DEBT 12/31/04 (1)+(2)-(3)
263.82	CTED-CERB LOAN - B.Pt. Infra	1992-Drawn `95	01/01/15	$80,066	$0	$5,329	$74,737
263.82	CTED-CERB LOAN - B.Pt. SBDC Bldg.	1993	07/01/14	203,454	0	15,885	$187,569
263.82	CTED-CERB LOAN - B.Pt. Phase 1, Bldg. 1B	2000	01/01/20	353,606	0	0	$353,606
263.82	CTED-CERB LOAN - B.Pt. Phase 1, Bldg. 1D	2004	07/01/24	0	650,000	0	$650,000
	`03 LTGO BONDS	2003	12/1/2022	1,070,000	0	40,000	1,030,000
	TOTAL G.O. DEBT			$1,707,126	$650,000	$61,214	$2,295,912

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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. 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 program to coordinate audit efficiency and to ensure high-quality audits.

State Auditor	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Administration	**Doug Cochran**
Director of State and Local Audits	**Chuck Pfeil, CPA**
Director of Performance Audit	**Linda Long, CPA, CGFM**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free hotline for government efficiency	**(866) 902-3900**
Web Site	**www.sao.wa.gov**