

# *Port of Seattle*

*Financial Statements, Required  
Supplementary Information, and  
Independent Auditors' Report  
December 31, 2004*

# PORT OF SEATTLE

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## INDEPENDENT AUDITORS' REPORT

Port Commission  
Port of Seattle  
Seattle, Washington

We have audited the accompanying financial statements of the Enterprise Fund and the Pension Trust Fund of the Port of Seattle (the "Port") as of and for the years ended December 31, 2004 and 2003, and for the year ended December 31, 2002 for the Enterprise Fund, and as of and for the period from May 25, 2004 (inception) through December 31, 2004 for the Pension Trust Fund, which collectively comprise the Port's basic financial statements as listed in the table of contents. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over financial reporting. Accordingly, we express no such opinion. 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 respective financial position of the Enterprise Fund as of December 31, 2004 and 2003 and of the Pension Trust Fund as of December 31, 2004, and the changes in financial position and cash flows for the Enterprise Fund for the years ended December 31, 2004, 2003 and 2002, and the changes in net assets for the Pension Trust Fund for the period from May 25, 2004 (inception) through December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 2 through 8 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Port's management. 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.

*Deloitte & Touche LLP*

May 10, 2005

# **PORT OF SEATTLE**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2004 AND 2003**

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### **INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") of the Port of Seattle's (the "Port") activities and financial performance provides an introduction to the financial statements of the Port of Seattle for the fiscal year ended December 31, 2004, including Port operations within the Enterprise Fund and the Pension Trust Fund, with selected comparative information for the year ended December 31, 2003. The Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Pension Trust Fund. This includes the Port's two major business activities, which are comprised of the Aviation and Seaport divisions and the Economic Development Division. Enterprise funds are used to account for operations and activities that are financed at least in part by fees or charges to external users. The Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. The Port became the sole administrator for the Warehousemen's Pension Plan and Trust effective May 25, 2004. The MD&A presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section. The notes are essential to thoroughly understand the data contained in the financial statements.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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 report includes the following three basic financial statements for the Port Enterprise Fund: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The report also includes the following two basic financial statements for the Pension Trust Fund: statements of net assets and statements of changes in net assets.

## ENTERPRISE FUND

### Financial Position Summary

The statements of net assets present the financial position of the enterprise fund of the Port at the end of the fiscal year. The statements include all assets and liabilities of the enterprise fund. Net assets, the difference between total assets and total liabilities, is an indicator of the current fiscal health of the organization and the enterprise's financial position over time. A summarized comparison of the enterprise fund assets, liabilities, and net assets at December 31 is as follows:

(In thousands)	2004	2003
ASSETS:		
Current, long-term, and other assets	\$ 846,039	\$ 995,228
Capital assets	<u>4,154,843</u>	<u>3,747,656</u>
Total assets	<u>\$5,000,882</u>	<u>\$4,742,884</u>
LIABILITIES:		
Current liabilities	\$ 264,635	\$ 319,703
Long-term liabilities	<u>2,812,337</u>	<u>2,700,385</u>
Total liabilities	<u>\$3,076,972</u>	<u>\$3,020,088</u>
NET ASSETS:		
Invested in capital assets—net of related debt	\$1,829,975	\$1,616,676
Restricted net assets	21,910	29,376
Unrestricted net assets	<u>72,025</u>	<u>76,744</u>
Total net assets	<u>\$1,923,910</u>	<u>\$1,722,796</u>

Assets exceeded liabilities by \$1.9 billion, a \$201 million increase over total net assets as of December 31, 2003. For the year ended December 31, 2004, the largest portion of the enterprise fund's net assets represents its investment in capital assets, less the related debt outstanding used to acquire those capital assets. The Port uses these capital assets to provide services to its tenants, passengers, and customers of the Aviation and Seaport divisions; consequently, these assets are not available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

The unrestricted net assets of \$72 million may be used to satisfy the Port's ongoing obligations, of which \$58 million in the aviation development fund will be used solely for the Aviation's ongoing obligations.

## Statements of Revenues, Expenses, and Changes in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of the enterprise fund has improved or worsened during the year. Following is a summary of the statements of revenues, expenses, and changes in net assets:

(In thousands)	2004	2003
Operating revenues	\$ 377,202	\$ 321,753
Operating expenses	<u>223,270</u>	<u>209,067</u>
Operating income before depreciation	153,932	112,686
Depreciation	<u>110,175</u>	<u>85,076</u>
Operating income	43,757	27,610
Nonoperating income—net	<u>157,357</u>	<u>76,643</u>
Increase in net assets	201,114	104,253
Net assets—beginning of year	<u>1,722,796</u>	<u>1,618,543</u>
Net assets—end of year	<u>\$1,923,910</u>	<u>\$1,722,796</u>

### Financial Operation Highlights

Operating revenues within the enterprise fund increased 17% from \$322 million to \$377 million. Aviation operating revenues increased \$34 million due to a combination of (1) an increase in fees charged to recover costs associated with new facilities coming into service in 2004 such as Concourse A, (2) a change in the rate setting methodology for aeronautical facilities based on the new signatory airline lease and operating agreements (“Airline Agreements”) that permits the Port to retain increased net operating income, and (3) increased passenger traffic of 7.5% that drove increases to non-airline revenues such as parking, rental cars, and concessions. Seaport Division operating revenues increased \$21 million largely due to Seaport security grant revenues from the Operation Safe Commerce program. These operating grant revenues were reimbursements for operating expenses incurred during the year.

Operating expenses increased 7% from \$209 million to \$223 million. Aviation Division operating expenses increased only \$2 million between years. Large fluctuations in expense categories from 2003 to 2004 include (1) a decline in Operations and Maintenance expense from 2003 due to non-recurring significant project write-offs from changes in divisional capital spending plans in 2003, (2) an increase in Administrative costs to support Aviation information technology initiatives, (3) an increase due to a corporate restructure in Information Technology, and (4) a decrease in recoveries related to FEMA from the February 2001 earthquake. Seaport Division operating expenses increased \$12 million as a result of a \$17 million increase in Seaport security grant expenditures from the Operation Safe Commerce program that were subsequently reimbursed. This was offset by a reduction in the 2004 environmental reserve expense for the Seaport Division of \$2.7 million and a \$1.9 million decline in warehouse expenses from 2003.

As a result of the above, operating income before depreciation increased \$41 million from 2003.

Depreciation expense was \$25 million above 2003 primarily in the Aviation division due to the opening of the South Terminal Expansion Terminal in June of 2004. Additionally, \$8.9 million in depreciation expense recorded in 2004 related to assets that were placed in service in prior years.

Non-operating income—net increased about \$81 million, largely due to an \$86 million increase in grant receipts for the year. Other significant fluctuations included a \$14 million increase in revenue bond interest expense due to less interest being capitalized in 2004 and a \$9 million decline in Other expense—net from reduced losses from the demolition of assets occurring in 2003 of which \$3.5 million of loss on disposal relates to assets demolished in prior years that was recognized in 2004.

Net income for 2004 was \$201 million, compared to \$104 million in 2003. This increase was due to higher operating revenues and increases in nonoperating revenues when netted with expenses.

### **Budgetary Highlights**

The following represents the Port's budget highlights for the year ended December 31, 2004:

(In thousands)	<b>Actual</b>	<b>Budget</b>
Operating revenues	\$ 377,202	\$ 363,155
Operating expenses	<u>223,270</u>	<u>217,409</u>
Operating income before depreciation	153,932	145,746
Depreciation	<u>110,175</u>	<u>86,274</u>
Operating income	43,757	59,472
Nonoperating income—net	<u>157,357</u>	<u>156,462</u>
Net income	<u>\$ 201,114</u>	<u>\$ 215,934</u>

Operating revenues were above budget by \$14 million with each division contributing to the increase. The Aviation Division increase over budget was primarily due to an increased passenger levels that drove increases in public parking revenues and concession revenues. In addition, rental car revenues increased due to space being rented and a new car rental contract in effect. The Seaport Division increase was largely due to increases in crane rentals, space rent from an increase in grain volumes and security operating grant revenues from what was budgeted.

Operating expenses before depreciation were higher than budget by \$5.9 million. The Aviation Division was over budget due to severance expense related to a corporate restructure in the Information Technology Department allocated to the division, higher utility and janitorial costs, and an unbudgeted Radisson Hotel upgrade. The Seaport Division's operating expenses were higher than budget largely due to security operating grant expenses that were subsequently reimbursed and a \$2.2 million increase in the environmental reserve, \$1.1 million of which was not budgeted.

As a result of the above, operating income before depreciation was \$8.2 million above budget.

Depreciation expense was \$23.9 million above budget primarily in the Aviation division.

Non-operating income—net is \$1 million above budget. Grants and Donations increased \$12.4 million over budget along with decreased spending on public assets during the year of \$5.3 million. These favorable variances from budget were offset by unfavorable variances due to increased interest expense on Port bonds of \$10.1 million, lower investment income of \$3.3 million along with a contribution to the Pension Trust Fund of \$2 million and a \$1.6 million arbitrage expense that was not budgeted for.

As a result of the above, net income was \$14.9 million below budget.

## **PENSION TRUST FUND**

The Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. Effective May 25, 2004, the Port became the sole administrator over the Warehousemen's Pension Plan and Trust ("the Plan"). This plan was previously administered by two separate trusts, the Warehousemen's Pension Trust and the Local #9 Health and Welfare Trust for the employees at the Port's warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. The Plan provides that only service credited and compensation earned prior to April 1, 2004, shall be utilized to calculate benefits under the Plan, and the Port agrees to maintain the frozen Plan and to contribute funds to the Plan in such amounts that may be necessary to enable the Plan to pay vested accrued benefits as they become due and payable to participants and beneficiaries of the Plan. Included in this report are a Statement of Net Assets and Statement of Changes in Net Assets for the Pension Trust Fund as of the date that the Plan was legally acquired by the Port, May 25, 2004, through December 31, 2004.

The Statement of Net Assets reflects a \$2 million increase in pension contribution receivable at year-end from the Port, while investments at fair value declined approximately \$1 million due to changes in market conditions from May to December 2004. Net Assets at December 31, 2004 increased \$1.1 million over net assets as of May 25, 2004.

## **CAPITAL ASSETS**

The Port's capital assets as of December 31, 2004, amounted to \$4,154,843 (net of accumulated depreciation). This investment in capital assets includes land, air rights, facilities improvements, equipment, furniture and fixtures, and construction work in progress. The total increase in the Port's investment in capital assets after accumulated depreciation for 2004 was 11%, or \$407 million.

During 2004, completed projects totaling \$733 million were closed from construction-in-progress to their respective capital accounts. The major completed projects were (in millions):

Airport:	
South Terminal Expansion Project (STEP)	\$ 431
Satellite Transportation System	49
Access Control System	20
Communication Center (C-4)	19
Seaport:	
Terminal 91	\$ 32
Terminal 46	18

Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. The Port collected \$59,680,132 in property taxes through a King County ad valorem tax levy. Through this tax levy, passenger facility charges, federal and state grants, net increase in assets, and various bond issues, the Port funds capital assets. All capital assets are accounted for within the enterprise fund. Additional information on the Port's capital assets can be found in Note 4 in the accompanying notes to the financial statements.

## **DEBT ADMINISTRATION**

As of December 31, 2004, the Port had outstanding revenue bonds of \$2.1 billion, a \$129 million decrease from 2003. On June 30, 2004, the Port issued \$25 million of Revenue Refunding Bonds. During

2004, subordinate lien revenue notes (tax-exempt commercial paper) decreased \$57 million from \$105 million in 2003 to \$48 million in 2004.

As of December 31, 2004, the Port had outstanding general obligation bonds (“GO” bonds) of \$397 million, a \$180 million increase from 2003 due to a new bond issue offset by scheduled principal payments. On February 12, 2004, the Port issued \$299 million of GO bonds, including \$131.3 million of bonds used to refund the long-term portions of the General Obligation Bonds Series 1994 and Revenue Bonds, Series 1994B.

As of December 31, 2004, the Port had outstanding passenger facility charge (“PFC”) revenue bonds of \$243 million, an \$8 million decrease from 2003 due to scheduled principal payments.

As of December 31, 2004, the Port had outstanding special facility revenue bonds (SEATAC Fuel Facilities LLC) of \$121.1 million. Fuel facilities are leased to SEATAC Fuel Facilities LLC. The Lessee is obligated to collect the fuel system fees and to make monthly rent payments including a base rent for the land to the Port and facilities rent to a trustee. Facilities rent is established at an amount sufficient to pay monthly debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. No tax funds or revenues of the Port (other than fuel facilities lease revenues) are pledged to pay the debt service on the bonds.

As of December 31, 2004, the Port had outstanding conduit debt obligations of which \$188.6 million relates to Terminal 18 special facility bonds, which are not a liability or contingent liability of the Port under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. These bonds are not an obligation of the Port; no tax funds or revenue of the Port (other than Terminal 18 lease revenue) is pledged to pay the debt service on the bonds. The Terminal 18 facility is leased to the trustee for the benefit of bondholders, and the related bonds are not recorded in the Port’s financial statements.

Below are the underlying ratings for Port of Seattle bonds. Many of the Port’s bond issues include credit enhancement; the credit ratings for those issues are the ratings of the bond insurer or letter of credit provider. The Port also has bonds backed by the collection of PFC fees and special facility revenue bonds backed by the lease payments of SeaTac Fuel Facilities LLC; these bonds are insured.

<b>Current Bond Ratings:</b>	<b>Fitch</b>	<b>Moody’s</b>	<b>S&amp;P</b>
General obligation bonds	AA+	Aa1	AA+
First lien revenue bonds	AA	Aa2	AA-
Subordinate lien revenue bonds	A+	A1	A-

## **SIGNIFICANT EVENTS**

**Aviation Division**—Effective January 1, 2004, the Port entered into new signatory airline lease and operating agreements (“Airline Agreements”) that established a modified compensatory rate-making methodology for 2004 and 2005. Under the modified compensatory methodology, the Port assumed more financial risk relative to the residual methodology in prior years in return for more facility control and the potential to generate more discretionary cash flow. The Port receives the benefit of any increases in non-airline revenues and has more control over its capital program, but does not have the signatory airlines’ guarantee to generate sufficient gross revenue to meet the aviation’s total revenue bond debt service requirement. The signatory airlines pay rates and charges equal to the airfield and terminal revenue requirement as defined in the Airline Agreements. The Port is responsible for any costs not otherwise paid by the signatory airlines and retains any net operating income. The agreements include provisions for potential revenue sharing with the signatory airlines. During the budget approval process, the Port

establishes a revenue sharing percentage between 135% and 145% of aviation revenue bond debt service. For 2004, the revenue sharing percentage is 135%. The total amount of revenues in excess of the 135% debt service coverage is \$35.4 million for 2004. Of that amount, the Port will share 50% with the Signatory Airlines, so the total amount of revenue sharing that the airlines received in 2004 is \$17.7 million.

# PORT OF SEATTLE

## ENTERPRISE FUND STATEMENTS OF NET ASSETS DECEMBER 31, 2004 AND 2003 (In thousands)

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	\$ 76,812	\$ 53,949
Short-term investments	95,037	47,460
Accounts and contracts receivable, less allowance of \$1,220 and \$742 for doubtful accounts	33,377	35,790
Federal grants-in-aid receivable	34,342	14,506
Earthquake-related receivables	3,893	3,643
Taxes receivable	1,523	1,636
Maintenance supplies	4,151	3,181
Prepayments and other current assets	3,694	3,961
Deferred assets	4,975	859
Total current assets	257,804	164,985
RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS:		
Bond funds:		
Short-term investments	38,395	117,973
Long-term investments	463,809	593,670
Fuel hydrant assets held in trust:		
Cash and cash equivalents	16,938	32,282
Short-term investments	9,987	21,823
Long-term investments	8,981	20,996
Contract retainage—cash and cash equivalents	411	231
Total restricted cash, cash equivalents, and investments	538,521	786,975
CAPITAL ASSETS:		
Land and air rights	1,133,320	1,096,765
Facilities and improvements	2,890,165	2,168,023
Equipment, furniture, and fixtures	321,229	252,644
Total capital assets	4,344,714	3,517,432
Less accumulated depreciation	952,149	875,870
Construction work in progress	762,278	1,106,094
Total capital assets—net	4,154,843	3,747,656
DEFERRED FINANCE COSTS, Net of accumulated amortization of \$17,713 and \$12,818	49,714	43,268
TOTAL	<u>\$ 5,000,882</u>	<u>\$ 4,742,884</u>

<b>LIABILITIES AND NET ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	67,038	74,200
Accrued earthquake expenses	1,328	3,178
Payroll and taxes payable	29,362	31,899
Bond interest payable	37,632	34,481
Lease deposits and customer advances	4,905	3,275
Current maturities of long-term debt	<u>124,370</u>	<u>172,670</u>
Total current liabilities	264,635	319,703
<b>LONG-TERM LIABILITIES:</b>		
Accrued environmental expenses	9,179	9,277
Accrued long-term expenses	3,260	1,673
<b>LONG-TERM DEBT—Less current maturities:</b>		
Revenue bonds	2,026,995	2,103,155
General obligation bonds	380,225	204,850
Passenger facility charges revenue bonds	235,635	243,475
Fuel hydrant special facility bonds	121,140	121,140
Unamortized bond premiums—net of accumulated amortization	52,889	35,531
Unamortized bond discount—net of accumulated amortization	<u>(16,986)</u>	<u>(18,716)</u>
Total long-term debt	<u>2,799,898</u>	<u>2,689,435</u>
Total liabilities	3,076,972	3,020,088
<b>COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)</b>		
<b>NET ASSETS:</b>		
Invested in capital assets—net of related debt	1,829,975	1,616,676
Restricted net assets	21,910	29,376
Unrestricted net assets	<u>72,025</u>	<u>76,744</u>
Total net assets	1,923,910	1,722,796
<b>TOTAL</b>	<u><u>\$5,000,882</u></u>	<u><u>\$4,742,884</u></u>

See notes to financial statements

# PORT OF SEATTLE

## ENTERPRISE FUND

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

(In thousands)

	2004	2003	2002
REVENUE:			
Services	\$ 140,189	\$ 168,650	\$ 170,853
Property rentals	211,848	145,947	131,157
Fuel hydrant facility revenues	689	435	
Security grant and contract revenues	<u>24,476</u>	<u>6,721</u>	<u>5,350</u>
Total revenue	377,202	321,753	307,360
OPERATING EXPENSES:			
Operations and maintenance	172,983	164,931	165,903
Earthquake repair expenses - net of recoveries	(195)	(2,590)	882
Law enforcement	17,392	17,076	18,672
Administration	30,890	25,579	26,875
Environmental	<u>2,200</u>	<u>4,071</u>	<u>8,607</u>
Total operating expenses before depreciation	<u>223,270</u>	<u>209,067</u>	<u>220,939</u>
Net operating income before depreciation	153,932	112,686	86,421
Depreciation	<u>110,175</u>	<u>85,076</u>	<u>84,853</u>
OPERATING INCOME	43,757	27,610	1,568
NONOPERATING (EXPENSE) INCOME:			
Ad valorem tax levy revenue	59,357	57,793	39,309
Passenger facility charges revenue and related interest income	56,129	54,373	53,675
Grants and donations	118,428	32,790	17,175
Investment income—net	6,240	5,469	17,419
Revenue and capital appreciation bond interest expense	(58,401)	(44,136)	(36,815)
Passenger facility charges revenue bond interest expense	(5,923)	(3,869)	(3,121)
General obligation bond interest expense—net	(11,520)	(9,674)	(8,431)
Public assets expense	(665)	(396)	(5,425)
Other expense—net	<u>(6,288)</u>	<u>(15,707)</u>	<u>(5,447)</u>
Total nonoperating income—net	<u>157,357</u>	<u>76,643</u>	<u>68,339</u>
INCREASE IN NET ASSETS	201,114	104,253	69,907
TOTAL NET ASSETS:			
Beginning of year	<u>1,722,796</u>	<u>1,618,543</u>	<u>1,548,636</u>
End of year	<u>\$ 1,923,910</u>	<u>\$ 1,722,796</u>	<u>\$ 1,618,543</u>

See notes to financial statements.

# PORT OF SEATTLE

## ENTERPRISE FUND

### STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

(In thousands)

	2004	2003	2002
<b>OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 354,592	\$ 310,035	\$ 297,984
Cash paid to suppliers for goods and services	(95,101)	(72,430)	(70,025)
Cash paid to employees for salaries, wages, and benefits	(141,120)	(133,012)	(143,950)
Security grant revenues	<u>24,476</u>	<u>6,721</u>	<u>5,350</u>
Net cash provided by operating activities	142,847	111,314	89,359
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from issuance of revenue refunding bonds	21,305	665,145	315,297
Proceeds from issuance of commercial paper	33,685	128,820	54,907
Proceeds from sale of general obligation bonds	315,037		
Proceeds used for refunding of revenue bonds	(160,090)	(51,680)	(305,625)
Acquisition and construction of capital assets	(535,429)	(525,942)	(516,670)
Principal payments on revenue bonds, PFC, GO bonds, and commercial paper	(154,040)	(142,756)	(65,452)
Interest payments on revenue and fuel hydrant bonds, PFC, GO bonds, and commercial paper	(73,720)	(49,443)	(50,871)
Interest received on invested bond proceeds	63	203	145
Proceeds from sale of capital assets	14,918	1,113	6,728
Public asset disbursements	(667)	(396)	(5,425)
Ad valorem tax levy receipts	59,471	57,383	39,506
Receipts from federal grants-in-aid	98,592	23,292	30,124
Passenger facility charges receipts	54,860	52,510	53,542
Other	<u>(3,568)</u>	<u>(1,974)</u>	<u>371</u>
Net cash (used in) provided by capital and related financing activities	<u>(329,583)</u>	<u>156,275</u>	<u>(443,423)</u>
<b>INVESTING ACTIVITIES:</b>			
Purchases of investment securities	(848,570)	(864,825)	(302,832)
Proceeds from sales and maturities of investments	1,028,511	596,602	629,871
Interest received on investments	<u>14,494</u>	<u>15,611</u>	<u>15,167</u>
Net cash provided by (used in) investing activities	<u>194,435</u>	<u>(252,612)</u>	<u>342,206</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>7,699</b>	<b>14,977</b>	<b>(11,858)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	<u>86,462</u>	<u>71,485</u>	<u>83,343</u>
End of year	<u>\$ 94,161</u>	<u>\$ 86,462</u>	<u>\$ 71,485</u>

(Continued)

# PORT OF SEATTLE

## ENTERPRISE FUND

### STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

(In thousands)

	2004	2003	2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 43,757	\$ 27,610	\$ 1,568
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	110,175	85,076	84,853
(Increase) decrease in assets:			
Accounts receivable	2,413	(4,368)	(3,924)
Earthquake-related receivables	(250)	5,080	17,140
Maintenance supplies, prepaid items, and other	(4,818)	1,176	209
Increase (decrease) in liabilities:			
Accounts payable and Accrued expenses	905	4,073	4,865
Accrued earthquake expenses	(1,850)	(8,335)	(18,264)
Payroll and taxes payable	(9,017)	804	2,673
Accrued environmental expenses	(98)	(882)	(35)
Lease deposits and customer advances	<u>1,630</u>	<u>1,080</u>	<u>274</u>
Net cash provided by operating activities	<u>\$ 142,847</u>	<u>\$ 111,314</u>	<u>\$ 89,359</u>

See notes to financial statements.

(Concluded)

# PORT OF SEATTLE

## PENSION TRUST FUND

### STATEMENT OF NET ASSETS

DECEMBER 31, 2004 and May 25, 2004 (date of inception)

(In thousands)

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	December 31, 2004	May 25, 2004 (date of inception)
ASSETS:		
Cash and cash equivalents	\$ 174	\$ 291
Pension contribution receivable	2,000	
Investments at fair value:		
Common Stock	5,671	6,937
U.S. Government securities	1,990	2,043
Corporate bonds	2,088	2,202
Mutual funds	<u>740</u>	<u>219</u>
Total assets	12,663	11,692
LIABILITIES:		
Accounts payable	<u>(1)</u>	<u>(1)</u>
NET ASSETS:		
Held in trust for pension benefits and other purposes	<u>\$ 12,662</u>	<u>\$ 11,691</u>
A schedule of funding progress is presented on page 35		

See notes to financial statements.

## PORT OF SEATTLE

### PENSION TRUST FUND

#### STATEMENT OF CHANGES IN NET ASSETS

FOR THE PERIOD MAY 25, 2004 (date of inception)—DECEMBER 31, 2004

(In thousands)

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#### ADDITIONS:

Employer contributions	\$ 2,000
Investment earnings:	
Interest	142
Dividends	62
Gain on investments sold	253
Net increase in fair value of investments	131
Less investment expense	<u>(44)</u>
Net investment earnings	<u>544</u>
 Total additions	 <u>2,544</u>

#### DEDUCTIONS:

Benefits	1,509
Administrative expenses	27
Professional fees	<u>37</u>
 Total deductions	 <u>1,573</u>

#### CHANGE IN NET ASSETS

971

#### NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

Beginning of period	<u>11,691</u>
 End of period	 <u>\$ 12,662</u>

See notes to financial statements.

# PORT OF SEATTLE

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003, and 2002 (ENTERPRISE FUND)

PERIOD ENDED DECEMBER 31, 2004 (PENSION TRUST FUND)

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### 1. ACCOUNTING POLICIES

**Organization**—The Port of Seattle (the “Port”) is a municipal corporation organized on September 5, 1911, through enabling legislation by consent of the voters within the Port district. In 1942, the local governments in King County selected the Port to operate the Seattle-Tacoma International Airport. The Port is considered a special purpose government with a separately elected commission of five members and is legally separate and fiscally independent of other state or local governments. The Port has no stockholders or equity holders. All revenues or other receipts must be disbursed in accordance with provisions of various statutes, applicable grants, and agreements with the holders of its bonds.

**Reporting Entity**—The Port reports the following funds: the Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Pension Trust Fund.

The Enterprise fund is used to account for operations and activities that are financed at least in part by fees or charges to external users. The Enterprise Fund comprises three operating divisions. The Aviation Division (“Airport”) serves the predominant air travel needs of a five-county area. The Airport has 18 U.S.-flag passenger air carriers (including regional and commuter air carriers) and eight foreign-flag airport carriers providing daily nonstop service from the Airport to 82 cities, including 15 foreign cities. The Seaport Division (“Seaport”) focuses primarily on containerized cargo. International containerized cargo arriving by ship is transferred to various modes of land transportation destined for other regions of the country. Domestic containerized cargo arriving by various modes of land transportation is transferred to outbound ships for distribution to other countries around the world. The Port is a seaport landlord with major tenants, including shipping companies, terminal operators, and other marine-related businesses. Both of these divisions have labor workforces subject to various collective bargaining agreements. These workforces support the operations and maintenance of the divisions. The Economic Development Division was formed in December 2002 to oversee Port real estate development, economic development, and regional transportation issues.

Within the Enterprise fund, the Port segregates expenses for public assets. This includes expenses for the Freight Action Strategy for the Everett-Seattle-Tacoma Corridor project, a joint planning activity of the Washington State Department of Transportation and the Puget Sound Regional Council. The project is intended to help update the State and region’s transportation plans to better meet the needs for rapid movement of freight and goods. These assets are not reflected in the Port’s financial statements as the projects are controlled by other governmental entities. These non-operating expenses are funded by the ad valorem tax levy.

The Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. On May 25, 2004, the Port became the sole administrator for the Warehousemen’s Pension Plan and Trust (the “Plan”). This plan was previously administered by two separate trusts – the Warehousemen’s Pension Trust and the Local #9 Health and Welfare Trust for the employees at the Port’s warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. As of May 25, 2004, the Plan is a governmental plan maintained and operated solely by the Port.

The Industrial Development corporation (“IDC”) is a blended component unit of the Port and is included within the accompanying financial statements. The IDC is a special purpose government with limited powers and governed by a Board of Directors, which is comprised of the same members as the Port Commission. The IDC finances industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities with the corporate boundaries of the Port.

***Basis of Accounting***—The Port is accounted for on a flow of economic resources measurement focus. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Government Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that governments’ proprietary activities apply all GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board (“FASB”) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the Port has elected to implement FASB Statements and Interpretations issued after November 30, 1989. The more significant of the Port’s accounting policies are described below.

***Use of Estimates***—The preparation of the Port’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used to record environmental, legal, insurance, and earthquake reserves; allowances for doubtful accounts; grants-in-aid receivable; and arbitrage liabilities. Actual results could differ from those estimates.

***Significant Risks and Uncertainties***—The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, security, federal, state, and local government regulations, and changes in law.

***Landing Fees***—The cost of Airport facilities constructed or acquired with proceeds from revenue bonds is to be recovered under the provisions of a contract with the tenant airlines. The contractual agreement with the airlines, using a residual rate-setting methodology, provides that they will pay annual charges of the sum of the net cost of operating the Airport and a coverage factor of 1.35 times the required debt service on the revenue bonds. This contract expired December 31, 2002. The provisions of this contract were extended on a month-to-month basis through 2003. New agreements with the tenant airlines were signed effective January 1, 2004. Under the new structure, the Port assumes the financial risk for the Airport’s financial performance, and the signatory airlines will pay rates and charges equal to the costs of the facilities they use. The agreements include provisions for potential revenue sharing. The amount of revenue sharing that the airlines received in 2004 is \$17.7 million.

***Ad Valorem Tax Levy Revenue***—Ad valorem taxes received by the Port are utilized for the acquisition and construction of facilities, for the payment of principal and interest on general obligation bonds issued for the acquisition or construction of facilities, and for environmental expenses. The Port includes ad valorem tax revenues and interest on general obligation bonds in the statements of revenues, expenses, and changes in net assets.

**Passenger Facility Charges**—As determined by applicable federal legislation, passenger facility charges (“PFC”) generate revenue to be expended by the Port for eligible capital projects and the payment of principal and interest on specific revenue bonds. PFC revenues received from the airlines are recorded as non-operating income in the statements of revenues, expenses, and changes in net assets upon passenger enplanement.

**Federal Grants-in-Aid**—The Port receives federal grants-in-aid funds for construction of Airport and Seaport facilities and other capital activities along with operating grants to perform enhancements in Seaport security.

**Land, Facilities, and Equipment**—Land, facilities, and equipment are stated at cost, less accumulated depreciation. Costs applicable to noise damage remedies and air rights, together with the cost of litigation, generally are capitalized as a cost of the property. The Port capitalizes interest during construction until the asset is placed into service, based on actual debt service rates for bond funded construction and average interest rates on other construction. Depreciation is computed on a straight-line basis. Buildings and improvements are assigned lives of 30 to 50 years, equipment three to 20 years, and furniture and fixtures five to 10 years. The Port periodically reviews its long-lived assets for impairment. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly.

**Employee Benefits**—Eligible Port employees earn paid time off annually, depending on length of service. A stipulated maximum of paid time off and extended illness leave may be accumulated by employees. Terminated employees are entitled to be paid for unused paid time off and, under certain conditions, a portion of unused extended sick leave.

The Port also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is available to all salaried employees of the Port and to wage employees as negotiated. In 1998, the Port placed its deferred compensation plan assets in a separate trust as required under the Small Business Job Protection Act of 1996. The trust requirements were met by establishing a qualifying insurance contract, and as such, the related assets and liabilities are not included in the Port’s financial statements.

On an annual basis, the Port has the option of offering a 401(a) supplemental savings plan for salaried employees. The Plan establishes a 401(a) tax-deferred savings account for each eligible employee, which increases with tenure. The Port’s flat contribution amount ranges from \$500 to \$1,000 annually based on years of service. Additionally, the Port matches employee contributions to the Plan dollar-for-dollar up to a fixed maximum of \$2,200. This matching contribution also increases with tenure. Employees are able to direct the 401(a) funds to any investment options available under the Plan.

**Investments and Cash Equivalents**—All short-term investments with a maturity of three months or less at date of purchase are considered to be cash equivalents. Investments are carried at fair value plus accrued interest. Fair values are determined based on quoted market rates. Gains or losses due to market valuation changes are recognized in the statements of revenues, expenses, and changes in net assets.

**Environmental Reserves**—The Port’s policy is to accrue amounts for environmental liabilities when they are determined to be probable, reasonably estimable, and required by law. When the Port’s obligation becomes fixed or reliably determinable, the liability is discounted using the Port’s cost of capital and the projected periods of cash payments. Insurance proceeds, if any, are evaluated separately from the Port’s liability.

**Debt Discount, Premium, and Issuance Costs**—Debt discounts, premiums, and issuance costs relating to the sale of bonds are amortized over the lives of the related bonds using the effective interest method.

**Refunds of Debt**—The accounting gain or loss resulting from debt refunding is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

It is the Port's practice when defeasing bonds to place the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded in the financial statements. As of December 31, 2004, there was \$17,005,000 that was required to be held in trust related to the 2004 Taxable Refunding as detailed below:

1996B \$2,980,000  
1998 \$14,025,000

**Payments in Lieu of Taxes**—The Port, on behalf of the state of Washington, collects applicable leasehold taxes from its tenants. The taxes are a pass-through to the state and are, therefore, not reflected as an expense or revenue by the Port. The Port also pays business and occupation excise taxes on its retail services and other commercial activities.

**Net Assets**—As required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, net assets (equity) have been classified on the statement of net assets into the following categories:

- Invested in capital assets—net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted: Net assets subject to externally imposed stipulations on their use.
- Unrestricted: All remaining net assets that do not meet the definition of “invested in capital assets—net of related debt” or “restricted.”

**Accounting Changes**—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The requirements of this statement are effective for the Port's financial statements for periods beginning after June 15, 2004 (January 1, 2005). The Port will adopt this statement effective January 1, 2005 by revising the format and content of the related footnote disclosure.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The Port adopted this statement for the period ending December 31, 2004. There was no impact on the Port's financial position or results of operations.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Retirement Benefits other than Pensions*, establishes standards for the measurement, recognition and display of other post employment benefits expense/expenditures and related liabilities (assets), note disclosures and if applicable, required supplementary information in the financial reports of state and local governments. This statement addresses financial statement and disclosure requirements for reporting by employers that include other post employment benefits plan assets as trust or agency funds in their financial reports. This statement is effective for periods beginning after December 16, 2006. The Port has not yet evaluated the impacts of this statement on its financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This standard was adopted by the Port during 2003. The adoption of SFAS No. 143 did not have a material effect on the Port's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 revises the accounting for exit and disposal activities as prescribed by the consensus reached in Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. Commitment to a plan to exit an activity or dispose of long-lived assets will no longer be sufficient to record a one-time charge for most anticipated costs. Instead, SFAS No. 146 requires exit or disposal costs be recorded when they are "incurred" and can be measured at fair value. The provisions of SFAS No. 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Port's financial position or results of operations.

***Nonexchange Transactions***—GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, establishes uniform revenue recognition criteria and financial reporting standards regarding when (i.e., in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. These transactions, which include taxes, intergovernmental grants, entitlements, and other financial assistance, are reported as revenue in the statements of revenues, expenses, and changes in net assets.

***Operating and Nonoperating Revenues***—Fees for services, rents and charges for the use of Port facilities, Airport landing fees, operating grants, and other revenues generated from operations are reported as operating revenue. Ad valorem tax levy revenues, nonoperating grants and contributions, PFCs, and other revenues generated from nonoperating sources are classified as nonoperating.

***Reclassifications and Presentation***—Certain reclassifications of prior years' balances have been made to conform with the current year presentation.

## **2. ENTERPRISE FUND DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

On July 31, 2002, the Port became its own treasurer to better manage cash flow and enhance investment earnings. State investment statutes and Port investment policy authorize the Port treasurer to invest in certificates of deposits with qualified public depositories; certificates, notes, bonds, bills, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the U.S. government; obligations of U.S. government-sponsored corporations eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System; bankers' acceptances of the 50 largest world banks purchased in the secondary market; commercial paper rated no lower than A1P1 not to exceed 180 days purchased in the secondary market; and repurchase and reverse repurchase agreements and municipal bonds in compliance with RCW 39.59.020.

**Deposits**—Port bank deposits, by state statute, can only be deposited in qualified public depositories. These amounts are carried at face value. Certificates of deposit are held in safekeeping in qualified depositories. Certificates of deposit in excess of the Federal Deposit Insurance Corporation insurance limitation are collateralized by the assets of the financial institutions in the State of Washington Public Deposit Protection Commission pool. Certificates of deposits are carried at cost plus accrued interest.

**Cash, Cash Equivalents, and Investments**—The Port’s cash balances are fully collateralized. The Port’s safekeeping agent takes possession of marketable investment securities. The Port’s investment policies require that repurchase and reverse repurchase agreements will not exceed 60 days in duration. Repurchase agreements shall only be executed with primary government bond dealers and will be collateralized in excess of 102% if under 30 days and 105% from 30 to 60 days. Investments are to be categorized to give an indication of the level of credit risk assumed by the Port. All the Port’s investments reside in category 1, which includes investments that are insured, registered, or for which the securities are held in the Port’s name by its agent. The fuel hydrant facility financing is administered by a trustee—Wells Fargo Bank—of which a portion of the investments are registered in the Port’s name held by the trustee (\$21 million), which are category 1 investments, and a portion of the investments are in Wells Fargo Bank money market funds (\$15 million), which are Category 3 investments, as the investments are registered in the name of the trustee.

Cash, cash equivalents, and investments consist of the following at December 31, of which \$674 million represents investments held in the Port’s portfolio and \$36 million relates to fuel hydrant cash, cash equivalents, and investments in trust not held in the Port’s investment portfolio (in thousands):

	<b>2004</b>	<b>2003</b>
Port of Seattle portfolio:		
Federal agency securities	410,874	461,618
Treasury bills, notes, and bonds	214,080	285,142
Repurchase agreements	20,002	35,000
Commercial paper	<u>25,592</u>	<u>25,597</u>
	670,548	807,357
Accrued interest	<u>3,916</u>	<u>5,926</u>
Total cash, cash equivalents, and investments	<u>\$ 674,464</u>	<u>\$ 813,283</u>
Fuel hydrant assets held in trust:		
Money market funds	\$ 14,910	\$ 32,282
Federal agency securities	20,996	31,966
Treasury bills, notes, and bonds	<u>          </u>	<u>10,853</u>
Total cash, cash equivalents, and investments	<u>\$ 35,906</u>	<u>\$ 75,101</u>

### 3. EARTHQUAKE

On February 28, 2001, an earthquake occurred in the Puget Sound area. The Port has insurance policies, in addition to financial relief from the Federal Emergency Management Agency (“FEMA”) and the state, to cover a significant portion of the property losses incurred. The Port has established a reserve for its earthquake expenditures. The total cost of earthquake damage on its various Aviation and Seaport properties is estimated to be about \$28.4 million, with anticipated insurance/FEMA/state/Federal

Aviation Administration reimbursements of about \$22.7 million. During 2003, the Port reversed a portion of the accrual previously recognized due to a reduction in the total estimated costs and an increase in FEMA receivables associated with earthquake-related repairs. As of December 31, 2004, \$1.3 million of accrued earthquake expenses remain as yet to be expended for repairs, along with a \$3.9 million receivable from insurance, FEMA, and state reimbursements.

#### 4. CAPITAL ASSETS

Capital assets consist of the following at December 31 (in thousands):

	Beginning of Year	Additions	Retirements	End of Year
2004:				
Land and air rights	\$1,096,765	\$ 42,388	\$ (5,833)	\$1,133,320
Facilities and improvements	2,168,023	762,290	(40,148)	\$2,890,165
Equipment, furniture, and fixtures	<u>252,644</u>	<u>74,523</u>	<u>(5,938)</u>	<u>\$ 321,229</u>
	3,517,432	879,201	(51,919)	4,344,714
Less accumulated depreciation	<u>(875,870)</u>	<u>(110,131)</u>	<u>33,852</u>	<u>(952,149)</u>
Total capital assets	<u>\$2,641,562</u>	<u>\$ 769,070</u>	<u>\$ (18,067)</u>	<u>\$3,392,565</u>
2003:				
Land and air rights	\$1,078,841	\$ 20,813	\$ (2,889)	\$1,096,765
Facilities and improvements	1,970,966	240,849	(43,792)	2,168,023
Equipment, furniture, and fixtures	<u>238,999</u>	<u>20,018</u>	<u>(6,373)</u>	<u>252,644</u>
	3,288,806	281,680	(53,054)	3,517,432
Less accumulated depreciation	<u>(825,890)</u>	<u>(85,077)</u>	<u>35,097</u>	<u>(875,870)</u>
Total capital assets	<u>\$2,462,916</u>	<u>\$ 196,603</u>	<u>\$ (17,957)</u>	<u>\$2,641,562</u>

For the year ended December 31, 2004, \$3 million is recorded in other expense—net, of which \$7.3 million relates to losses from demolition in the Aviation Division while Seaport had a net \$4.4 million gain for the year related to the sale of the Terminal 106 warehouse asset.

#### 5. ACCOUNTING FOR LEASES

A significant portion of the Seaport terminal land, facilities, and equipment is leased to tenants under operating leases and are included in the schedule below. Airport operating leases with minimal annual guarantees (primarily car rental agreements) and land rentals not tied to the new signatory airline lease and operating agreement (“SLOA”) are also included in the schedule below.

Minimum future rental income on non-cancelable operating leases on Seaport terminal and Airport facilities are as follows (in thousands):

<b>Year Ending December 31</b>	
2005	\$ 79,162
2006	80,342
2007	77,343
2008	80,535
2009	74,247
Thereafter	<u>1,920,996</u>
	<u>\$2,312,625</u>

Effective June 2003, the Port entered into a lease agreement with SeaTac Fuel Facilities LLC in a fuel system lease whereby the members are some of the commercial air carriers currently operating at the Airport. The lessee payments of facilities rent are made directly to a trustee in the amounts and at the times required to pay the principal and premium, if any, and interest on the Special Facility Revenue bonds issued to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The fuel system is intended to be the exclusive system for storage and delivery to commercial air carriers of jet aircraft fuel at the Airport. The lease, which represents an unconditional obligation of the lessee, extends until the later of July 31, 2033, or the repayment of the 2003 bonds. SeaTac Fuel was created by the consortium of airlines operating at the Airport for the purpose of entering the lease and managing the fuel hydrant system. The future rental income based on debt service requirements is \$3,724,833 for 2005, \$8,200,546 for 2006, \$8,199,150 for 2007, \$8,198,408 for 2008, \$8,199,900 for 2009 and \$191,986,431 for the years thereafter; these amounts are not included in the schedule above. All special facility lease revenues are restricted and are to be used solely for debt service on the bonds and not for Port operations.

## 6. LONG-TERM DEBT

The Port's long-term debt consists primarily of tax-exempt bonds. The majority of the Port's outstanding bonds are revenue bonds, which are secured by a pledge of net operating revenues of the Port. Revenue from passenger facility charges is pledged to secure passenger facilities charges revenue bonds. The Port also issues general obligation bonds payable from ad valorem taxes. Outstanding long-term debt as of December 31, 2004, consists of the following (in thousands):

Bond Type (by Bond Issue)	Rates	Maturity Dates	Beginning Balance	Principal Payments and Refunding	Issuance	Ending Balance
General obligation bonds:						
1985 variable GO bonds	1.06% *	2005	\$ 2,700	\$ (2,700)		\$
1994 GO bond	5.35%-5.9%	2005-2014	104,695	(104,695)		
2000 GO bond	4.9%-6.0%	2005-2025	109,890	(2,655)		107,235
2004 GO bond	4.5%-5.25%	2005-2023		(8,760)	298,810	290,050
			217,285	(118,810)	298,810	397,285
Revenue bonds:						
First lien:						
Series 1992 A	6.40%	2005	1,395	(1,000)		395
Series 1994 A	4.6%-5.0%	2005-2011	24,245	(6,750)		17,495
Series 1994 B	4.7%-5.375%	2005	41,195	(41,195)		
Series 1994 C	4.7%-5.0%	2005-2009	21,160	(3,315)		17,845
Series 1996 A	5.5%	2017-2021	31,820			31,820
Series 1996 B	5.1%-6.0%	2005-2017	59,370	(6,055)		53,315
Series 1997 A	5.125%-6.0%	2005-2022	120,375			120,375
Series 1997 B	5.25%	2005	6,155	(3,925)		2,230
Series 1998 A Refund Bond	4.5%-5.375%	2005-2017	39,440	(14,620)		24,820
Series 1998 A Refund Bond	5.125%-5.375%	2012-2014	8,255			8,255
Series 2000 A	5.5%-5.625%	2024-2030	130,690			130,690
Series 2000 B	5.5%-6.0%	2005-2024	221,590	(5,575)		216,015
Series 2000 C	4.70%	2005	4,735	(2,340)		2,395
Series 2000 D	5.5%-6.0%	2005-2011	15,670	(1,240)		14,430
Series 2001 A	5.0%	2024-2031	176,105			176,105
Series 2001 B	5.1%-5.625%	2006-2024	251,380			251,380
Series 2001 C	5.5%-5.625%	2012-2014	12,205			12,205
Series 2001 D	5.75%	2005-2017	68,580	(3,505)		65,075
Series 2003 A	5.0%-5.25%	2006-2033	190,470			190,470
Series 2003 B	4.25%-5.5%	2007-2029	164,900			164,900
Series 2004 Refund Bond	3.0%-5.75%	2005-2017			24,710	24,710
Total			1,589,735	(89,520)	24,710	1,524,925

(Continued)

Bond Type (by Bond Issue)	Rates	Maturity Dates	Beginning Balance	Principal Payments and Refunding	Issuance	Ending Balance
Subordinate lien:						
Series 1997	2.078% *	2022	\$ 108,830	\$		\$ 108,830
Series 1998	4.5%-5.375%	2005-2017	21,730	(1,125)		20,605
Series 1999 A	4.75%-5.5%	2016-2024	121,840			121,840
Series 1999 B	5.25%-5.5%	2005-2016	108,740	(6,180)		102,560
Series 2003 C	1.75%-1.78% *	2033	<u>200,000</u>			<u>200,000</u>
Total			561,140	(7,305)		553,835
Commercial paper	1.674%-1.921%	2005	<u>105,050</u>	<u>(57,345)</u>		<u>47,705</u>
Revenue bond totals			<u>2,255,925</u>	<u>(154,170)</u>	<u>24,710</u>	<u>2,126,465</u>
Passenger facility charge rev. bonds:						
Series 1998 A	5.0%-5.5%	2016-2023	118,490			118,490
Series 1998 B	5.0%-5.375%	2005-2016	<u>132,450</u>	<u>(7,465)</u>		<u>124,985</u>
Total			250,940	(7,465)		243,475
Fuel hydrant special facility bonds	3.0%-5.5%	2006-2033	<u>121,140</u>			<u>121,140</u>
Bond total			2,845,290	(271,685)	314,760	2,888,365
Unamortized bond premiums—net of discounts and amortization			<u>16,815</u>	<u>19,088</u>		<u>35,903</u>
Total debt			2,862,105	<u>\$ (252,597)</u>	<u>\$ 314,760</u>	2,924,268
Less current maturities of LT debt			<u>172,670</u>			<u>124,370</u>
Long-term debt			<u>\$2,689,435</u>			<u>\$2,799,898</u>

\* As of December 31, 2004

During February 2004, the Port issued \$32,510,000 of Series A and \$134,970,000 of Series B General Obligation Bonds to pay, or to reimburse the Port for the payment of, a portion of the costs of its ongoing capital improvement program along with \$131,330,000 of Series C Refunding Bonds used to refund the long-term portions of the General Obligation Bonds Series 1994 and Revenue Bonds, Series 1994B. The economic gain resulting from this transaction was \$11,479,942. The difference between the cash flows required to service the outstanding bonds and the cash flows required to service the new debt was a gain of \$11,741,800. Interest on the Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2004. The Series A and B Bonds are subject to optional redemption while the Series C Bonds are not subject to optional redemption prior to maturity.

In June 2004, the Port issued \$24,710,000 in Series 2004 Refunding Revenue Bond to partially refund certain outstanding Port revenue bonds 1992A, 1994A, 1996B and 1998A and to pay the costs of issuing the Series 2004 Bonds, including the cost of purchasing a surety policy to satisfy the debt service reserve fund requirements for the Series 2004 Bond. The economic loss resulting from this transaction was \$1,466,455. The difference between cash flows required to service the outstanding bonds and the cash flows required to service the new debt was a loss of \$2,298,519. Interest is payable on June 1 and December 1 of each year, commencing December 1, 2004. The Series 2004 Bonds are not subject to optional redemption prior to their scheduled maturities.

During August 2003, the Port issued \$190,470,000 Series 2003 A, \$164,900,000 Series 2003 B, and \$200,000,000 Series 2003 C revenue bonds to finance or refinance a portion of the costs of certain ongoing capital improvements at the Airport, and to satisfy a portion of the debt service reserve fund requirement for Series 2003 bonds. Interest on the Series 2003 A and B bonds from the date of delivery is payable on January 1 and July 1 of each year, commencing January 1, 2004, and are subject to optional and mandatory redemption. Series 2003 C bonds are issued as variable rate bonds; currently, interest rates are determined by auction every 35 days.

During May 2003, the Port issued Fuel Hydrant Special Facility Revenue bonds in the amount of \$121,140,000 to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Seattle-Tacoma International Airport. The Port is undertaking the development of the fuel system to lower the cost of fuel service at the Airport, improve Airport safety by reducing the need for fuel trucks to operate on the airfield, and address environmental concerns created by the current fuel system. The fuel facility will be leased for 40 years (including two five-year option periods) to SeaTac Fuel Facilities LLC (“Lessee”), a limited liability company formed by a consortium of airlines for the purpose of providing jet fuel storage and distribution at the Airport. The Port owns the system and the Lessee will oversee day-to-day management. The Lessee is obligated to collect the fuel system fees and to make monthly rent payments including a base rent for the land to the Port and facilities rent to Wells Fargo Bank Northwest, National Association (“Trustee”). Facilities rent is established at an amount sufficient to pay monthly debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. In addition, the Lessee is providing a guaranty and a security agreement to the Trustee, securing the Lessee’s obligation to pay principal and interest on the bonds. Interest on the Fuel Hydrant Special Facility Revenue bonds is payable on June 1 and December 1 of each year, commencing December 1, 2003.

At December 31, 2004, \$36 million of Fuel Hydrant Special Facility Revenue bond proceeds remain unspent, of which \$27 million is comprised of short-term restricted cash and investments and \$9 million is comprised of long-term restricted investments. Proceeds from the bonds are held by the Trustee and are available to the Port on a reimbursement basis as funds are spent for construction. Construction work-in-progress includes \$60 million relating to the construction of the fuel hydrant facility, and facilities improvements include \$16 million for the purchase of a fuel farm system. Fuel hydrant bonds in the amount of \$121 million are included in long-term debt on the statements of net assets.

During 2002, the Port issued its Port of Seattle Revenue Refunding Bonds, Series 2001 D, for \$68,580,000 to refund certain outstanding bonds of the Port and to satisfy a portion of the debt service reserve fund requirement for the Series 2001 bonds. The economic gain resulting from this transaction was \$2,054,004. The difference between the cash flows required to service the outstanding bonds and the cash flows required to service the new debt was a gain of \$ 4,354,364. Interest on the Series 2001 D bonds from the date of delivery is payable on May 1 and November 1 of each year, commencing November 1, 2004.

In November 2002, the Port converted \$244 million of existing 1999 subordinate lien revenue bonds from short-term weekly variable mode to long-term fixed mode to lock in low long-term interest rates.

The Commission authorized the sale of subordinate lien revenue notes (commercial paper) in an aggregate principal amount not to exceed \$250,000,000 for the purpose of financing and refinancing capital improvements within the Port, for working capital, and for paying maturing revenue notes of the same series and/or reimbursing the credit providers for advances made.

Passenger facility revenue bonds are secured by a lien pledge of the revenues generated from the passenger facility charges imposed by the Airport. The remaining revenue bonds are secured by a pledge of net revenues of the Port. The general obligation bonds and interest thereon are payable from ad valorem taxes.

The Port monitors the existence of any rebatable arbitrage interest income associated with its tax-exempt debt. The rebate is based on the differential between the interest earnings from the investment of the bond proceeds as compared to the interest expense associated with the respective bonds. As of December 31, 2004, the Port has estimated that arbitrage rebates of \$3,247,846 and \$11,982 existed in conjunction with its Series 2003 C revenue bonds and 1997 Series revenue bonds, respectively. Amounts are recorded as accrued long-term expenses in the statements of net assets. The actual payment of arbitrage rebate is due in 2008 and 2007. Other outstanding bond issues have potential arbitrage rebatable earnings; however, management estimates indicate that no additional potential arbitrage rebate liability exists as of December 31, 2004.

Interest expense costs capitalized were \$62,926,610, \$66,437,016, and \$61,363,084, and interest income capitalized was \$7,494,996, \$9,996,513, and \$17,179,984, for 2004, 2003, and 2002, respectively.

Aggregate annual payments on revenue and general obligation bonds and commercial paper outstanding at December 31, 2004 (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 111,890	\$ 134,171	\$ 246,061
2006	77,095	130,877	207,972
2007	83,085	127,052	210,137
2008	89,490	122,891	212,381
2009	93,940	118,386	212,326
2010–2015	696,265	597,908	1,294,173
2016–2021	751,615	388,133	1,139,748
2022–2027	577,750	183,247	760,997
2028–2033	407,235	46,613	453,848
	<u>\$2,888,365</u>	<u>\$1,849,278</u>	<u>\$4,737,643</u>

The fair value of long-term debt was \$3,057,258,302 and \$3,010,455,116 as of December 31, 2004 and 2003, respectively. This fair value is estimated using quoted market prices.

## 7. CONDUIT DEBT

The Port has the following conduit debt obligations totaling \$272,830,000 and \$273,830,000 as of December 31, 2004 and 2003, respectively, which are not a liability or contingent liability of the Port under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. The Port has not recorded these obligations, or the related assets, on the accompanying financial statements of the Port, as the Port has no obligation for the outstanding bonds beyond what is provided in the leasing arrangements.

In 1999, the Port issued special facility revenue bonds to pay, among other things, a portion of the costs of the expansion of Terminal 18. The Port has agreed to lease the site of Terminal 18 and the existing and future improvements thereon to Stevedoring Services of America, Inc. and its affiliate, SSA Terminals, LLC (“SSA”). The bonds are secured by lease payments paid by SSA to the trustee (Chase Manhattan Trust Company, National Association). No tax funds or revenues of the Port (other than Terminal 18 lease revenue) are pledged to pay the debt service on the bonds, and no liens (other than the

Terminal 18 properties) are pledged as collateral for the debt. At December 31, 2004 and 2003, special facility revenues bonds outstanding are \$188,630,000, after defeasance. The first scheduled principal payment is in 2008. In 2003, total facility completion triggered debt service payments on the special facility bonds. The Port records the net rental revenue after debt service in its statements of revenues, expenses, and changes in net assets.

Since 1982, the Port, through its blended component unit, the IDC, has issued tax-exempt nonrecourse revenue bonds to finance industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities within the corporate boundaries of the Port. These revenue bonds are secured by revenues derived from the industrial development facilities funded by the revenue bonds and leased to the IDC. No tax funds or revenues of the Port (other than the IDC lease revenue) are pledged to pay the debt service on the bonds, and no liens (other than the IDC properties) are pledged as collateral for the debt. At December 31, 2004 and 2003, industrial revenue bonds of \$84,200,000 and \$85,200,000, respectively, were outstanding.

## **8. ENTERPRISE FUND PENSION PLANS**

***Public Employees' Retirement System ("PERS")***—Substantially all of the Port's full-time and qualifying part-time employees, other than those covered under union plans, participate in PERS. This is a statewide local government retirement system administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer defined benefit public employee retirement plans. The PERS system includes three plans.

Participants who joined the system by September 30, 1977, are PERS Plan I members. Those joining thereafter are enrolled in PERS Plan II. In March 2000, Governor Gary Locke signed into law a new retirement plan for members of the PERS Plan II. The new plan, entitled PERS Plan III, provides members with a defined benefit plan similar to PERS Plan II and the opportunity to invest their retirement contributions in a defined contribution plan.

PERS Plan I members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2% of the average final compensation per year of service, capped at 60%. The average final compensation is based on the greatest compensation earned during any 24 eligible consecutive compensation months.

PERS Plan II members may retire at age 65 with five years of service or at 55 with 20 years of service. The annual pension is 2% of the average final compensation per year of service. PERS Plan II retirements prior to 65 are actuarially reduced. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the Consumer Price Index ("CPI") of Seattle, capped at 3% annually.

PERS Plan III is structured as a dual benefit program that will provide members with the following benefits:

- A defined benefit allowance similar to PERS Plan II calculated as 1% of the average final compensation per year of service (versus a 2% percent formula) and funded entirely by employer contributions.
- A defined contribution account consisting of member contributions plus the full investment return on those contributions.

Each biennium, the state Pension Funding Council adopts PERS Plan I employer contribution rates and PERS Plan II employer and employee contribution rates. Employee contribution rates for PERS Plan I are established by statute at 6% and do not vary from year to year. The employer and employee contribution rates for PERS Plan II are set by the director of the Department of Retirement Systems, based on recommendations by the Office of the State Actuary, to continue to fully fund PERS Plan II. Unlike PERS Plan II, which has a single contribution rate (which is currently 1.18%), with PERS Plan III, the employee chooses how much to contribute from one to six contribution rate options. Once an option has been selected, the contribution rate choice is irrevocable unless the employee changes employers.

All employers are required to contribute at the level established by state law. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.26 RCW.

The Port’s covered payroll for PERS for the year ended December 31, 2004, was \$62,632,686.

The Port’s contribution rates during 2004 expressed as a percentage of covered payroll for employer ranged from 1.10% to 1.18% for PERS Plan I, PERS Plan II, and PERS Plan III. The employer rates do not include the employer administrative expense fee currently set at .22%. For employees, the rate was 6% for PERS Plan I and a range of .65% to 1.18% for PERS Plan II, and PERS Plan III depends on the option the employee has chosen.

Both the Port and the employees made the required contributions. The Port’s required contributions for the years ended December 31 were as follows:

	PERS Plan I	PERS Plan II	PERS Plan III
2004	\$ 384,316	\$ 713,508	\$ 45,545
2003	593,922	710,868	28,057
2002	482,157	761,908	2,100

The pension obligation was calculated on a pension system basis and cannot be disclosed on a plan basis. PERS does not make separate measurements of assets and pension obligations for individual employers.

***Law Enforcement Officers’ and Fire Fighters’ Retirement System (“LEOFF”)***—LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes all full-time, fully compensated local law enforcement officers, and fire fighters. LEOFF comprises solely nonstate employees. The LEOFF system includes two plans.

Participants who joined the system by September 30, 1977, are LEOFF Plan I members. Those joining thereafter are enrolled in LEOFF Plan II. Retirement benefits are financed from employee and employer contributions, investment earnings, and state contributions. Retirement benefits in both LEOFF Plan I and LEOFF Plan II are vested after completion of five years of eligible service.

LEOFF Plan I members are eligible to retire with five years of service at age 50. The service retirement benefit is dependent upon the final average salary and service credit years at retirement. On April 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the CPI of Seattle.

<b>Term of Service</b>	<b>Percent of Final Average</b>
5 – 9 years	1.0 %
10 – 19 years	1.5
20 or more years	2.0

LEOFF Plan II members are eligible to retire at the age of 50 with 20 years of service or at 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced at a rate of 3% per year. The benefit is 2% of the final average salary per year of service. The final average salary is determined as the 60 highest paid consecutive service months. There is no limit on the number of service credit years, which may be included in the benefit calculation. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the CPI of Seattle, capped at 3% annually.

LEOFF Plan I employer and employee contribution rates are established by statute, and the state is responsible for the balance of the funding at rates set by the Pension Funding Council to fully amortize the total costs of the plan. Employer and employee rates for LEOFF Plan II are set by the director of the Department of Retirement Systems, based on recommendations by the Office of the State Actuary, to continue to fully fund the plan. LEOFF Plan II employers and employees are required to contribute at the level required by state law. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The Port’s current year covered payroll for LEOFF for the year ended December 31, 2004, was \$13,792,063.

The Port’s required contribution rates during 2004 expressed as a percentage of covered payroll for LEOFF Plan I was 0% for both employer and employee. For LEOFF Plan II (Firefighters), the range of rates was 2.64% to 3.03% for employer and 4.39% to 5.05% for employees. For LEOFF Plan II (Police), the range of rates was 4.38% to 5.04% for employer and 4.39% to 5.05% for employees. The employer rates do not include the employer administrative expense fees currently set at .22% for LEOFF Plan I and LEOFF Plan II (Firefighters) and .23% for LEOFF Plan II (Police).

Both the Port and the employees made the required contributions. The Port’s required contributions for the years ended December 31 were as follows:

	<b>LEOFF Plan I</b>	<b>LEOFF Plan II (Firefighters)</b>	<b>LEOFF Plan II (Police Officers)</b>
2004	\$ 860	\$ 153,328	\$ 457,672
2003	916	141,407	403,575
2002	1,118	133,738	402,353

Historical trend information regarding all of these plans is presented in Washington State’s Department of Retirement Systems’ annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems  
Point Plaza West  
1025 East Union Street  
P.O. Box 48380  
Olympia, Washington 98504-8380  
Internet Address: [www.drs.wa.gov](http://www.drs.wa.gov)

## 9. CONTINGENCIES

The Port is a defendant in various legal actions and claims, including environmental cleanup actions, which arise during the normal course of business, some of which may be covered by insurance. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable, and in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or results of operations of the Port. In some cases, the Port has provided reserves for these matters, which, in the opinion of management, are adequate.

As of December 31, 2004, the Port's environmental reserves are anticipated to be spent over the following time frame in the following amounts (in thousands):

2005	\$ 12,082
2006	4,750
2007	2,717
2008	1,190
2009	137
Thereafter	<u>386</u>
Total	<u>\$ 21,262</u>

Amounts received or receivable under federal grants-in-aid programs are subject to audit and adjustment by the granting agency. Any disallowed claims, including amounts already received, may constitute a liability of the Port. The amount, if any, of expenditures that may be disallowed cannot be determined at this time, although the Port expects such amounts, if any, to be insignificant.

## 10. COMMITMENTS

As of December 31, 2004, the Port has authorized or made commitments for acquisition and construction as follows (in thousands):

Funds committed:	
Seaport terminals	\$ 142,816
Airport facilities	790,072
Corporate	3,153
Economic and trade development	1,800
Funds authorized but not yet committed:	
Seaport terminals	46,005
Airport facilities	<u>172,889</u>
	<u>\$ 1,156,735</u>

## 11. BUSINESS INFORMATION

For the Enterprise Fund's two major business activities, operations consist of Seaport terminals and Airport facilities. Indirect costs have been allocated to Seaport terminals and Airport facilities using various methods based on estimated hours of work, revenue plus expenses, full-time equivalent units, and other factors.

The Port's operating revenues are derived from various sources. The Seaport's operating revenues are principally derived from the leasing of Seaport terminal facilities. The Airport's operating revenues are derived primarily from its airline agreements, concession agreements, and other business arrangements.

Operating revenues, as reflected in the statements of revenues, expenses, and changes in net assets, from the Port's major sources are as follows (in thousands):

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Seaport division:			
Property rentals	\$ 51,119	\$ 49,699	\$ 41,100
Equipment rentals	9,922	7,433	7,588
Distribution and storage	16	19	4,762
Security grants	23,199	4,501	379
Other	<u>24,814</u>	<u>26,079</u>	<u>34,497</u>
Total Seaport division revenues	<u>\$ 109,070</u>	<u>\$ 87,731</u>	<u>\$ 88,326</u>
Aviation division:			
Property rentals	\$ 161,170	\$ 96,471	\$ 89,844
Landing fees	45,569	83,159	73,250
Parking	42,584	40,217	40,233
Security grants	1,196	1,575	4,972
Other	<u>17,279</u>	<u>11,728</u>	<u>10,734</u>
Total Aviation division revenues	<u>\$ 267,798</u>	<u>\$ 233,150</u>	<u>\$ 219,033</u>

The Port's major customers individually provided revenues equal to at least 36% of the applicable division's total operating revenues. For the Seaport, the revenues from its major customers accounted for 30%, 39% and 19% of total operating revenues in 2004, 2003, and 2002, respectively. For the Airport, the revenues from its major customers accounted for 38%, 35% and 36% of total operating revenues in 2004, 2003, and 2002, respectively.

Operating revenues, as reflected in the statements of revenues, expenses, and changes in net assets, from the Port's major customers are as follows (in thousands):

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Seaport division:			
Revenues	\$ 32,264	\$ 34,412	\$ 16,791
Number of major customers	2	2	1
Aviation division:			
Revenues	\$ 101,978	\$ 81,196	\$ 77,774
Number of major customers	2	2	2
Total revenues of all major customers	\$ 134,242	\$ 115,608	\$ 94,565
Total number of major customers	4	4	3

Financial information by division for the years ended December 31 is as follows (in thousands):

	2004		2003		2002	
	Seaport	Airport	Seaport	Airport	Seaport	Airport
Revenue	\$ 109,070	\$ 267,798	\$ 87,731	\$ 233,150	\$ 88,326	\$ 219,034
Operation and maintenance	63,454	109,528	48,729	116,202	55,116	110,787
Earthquake repair expense—net		(195)	227	(2,817)	(1,394)	2,276
Law enforcement	2,994	14,398	3,200	13,750	3,196	14,970
Administration	9,043	18,102	8,127	13,341	9,675	15,993
Environmental	2,217	(17)	4,859	(788)	8,570	37
Total operating expenses before depreciation	<u>77,708</u>	<u>141,816</u>	<u>65,142</u>	<u>139,688</u>	<u>75,163</u>	<u>144,063</u>
Net operating income before depreciation	31,362	125,982	22,589	93,462	13,163	74,971
Depreciation	<u>35,813</u>	<u>74,269</u>	<u>31,753</u>	<u>53,275</u>	<u>33,054</u>	<u>51,799</u>
Operating (loss) income	(4,451)	51,713	(9,164)	40,187	(19,891)	23,172
Nonoperating (expense) income:						
Ad valorem tax levy revenue	59,357		57,793		39,309	
Passenger facility charges revenue and related interest income		56,129		54,373		53,675
Grants and donations	2,876	115,312	2,841	29,670	826	16,349
Investment income—net	619	5,621	1,828	3,641	2,909	14,510
Revenue and capital appreciation bond interest expense	(6,422)	(51,979)	(8,585)	(35,577)	(9,782)	(27,033)
Passenger facility charges revenue bond interest expense		(5,923)		(3,870)		(3,121)
General obligation bond interest expense—net	(11,520)		(9,673)		(8,431)	
Public assets expense	(665)		(396)		(5,425)	
Other expense—net	2,690	(8,771)	(7,303)	(8,441)	(3,850)	(1,591)
Total nonoperating income—net	<u>46,935</u>	<u>110,389</u>	<u>36,505</u>	<u>39,796</u>	<u>15,556</u>	<u>52,789</u>
Increase in net assets	<u>\$ 42,484</u>	<u>\$ 162,102</u>	<u>\$ 27,341</u>	<u>\$ 79,983</u>	<u>\$ (4,335)</u>	<u>\$ 75,961</u>
Identifiable fixed assets	\$1,124,437	\$2,217,086	\$1,070,399	\$1,525,017	\$1,019,056	\$1,398,004
Other identifiable assets	<u>217,119</u>	<u>1,400,205</u>	<u>159,423</u>	<u>1,874,520</u>	<u>139,403</u>	<u>1,421,290</u>
Identifiable assets	<u>\$1,341,556</u>	<u>\$3,617,291</u>	<u>\$1,229,822</u>	<u>\$3,399,537</u>	<u>\$1,158,459</u>	<u>\$2,819,294</u>
Capital expenditures	<u>\$ 74,383</u>	<u>\$ 461,001</u>	<u>\$ 115,035</u>	<u>\$ 411,768</u>	<u>\$ 60,953</u>	<u>\$ 455,717</u>
Total long-term debt—including current maturities	<u>\$ 603,665</u>	<u>\$2,320,603</u>	<u>\$ 513,242</u>	<u>\$2,348,863</u>	<u>\$ 492,959</u>	<u>\$1,757,440</u>

## 12. PENSION TRUST FUND

In late 2002, the Port terminated all warehousing operations at Terminal 106 following the departure of Hasbro, the principal customer operating at the facility. Prior to closing the warehouse, the Port had provided pension and health benefits to represented employees under a Collective Bargaining Agreement with Local #9 of the International Longshore and Warehouse Union (“ILWU”). The benefits were administered by two separate trusts, the Warehousemen’s Pension Trust and the Local #9 Health & Welfare Trust. The Port made quarterly contributions to each trust in an amount sufficient to provide the required contractual benefits and the trusts were jointly administered by trustees appointed by both Local #9 and the Port.

Upon expiration of the contract with Local #9, the Port ceased making contributions to the Health & Welfare Trust and provided employees with the ability to maintain their health coverage by self-paying premiums through the Port's medical plan. The Port also ceased making contributions to the Pension Trust.

On May 25, 2004, the Port became the sole administrator for the Warehousemen's Pension Plan and Trust and is commencing contributions to the Plan. A schedule of employer contributions is shown below. The Plan is a governmental plan maintained and operated solely by the Port.

**A. Summary of Accounting policies**

The financial statements are prepared using the accrual basis of accounting. Port contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price on the last business day of the year.

**B. Plan Description and Contribution Information**

Membership of the plan consisted of the following at January 1, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	122
Terminated plan members entitled to but not yet receiving benefits	<u>104</u>
Total	<u>226</u>

Plan Description: The Plan is a defined benefit plan. The Plan provides that only service credited and compensation earned prior to April 1, 2004, shall be utilized to calculate benefits under the Plan, and the Port agrees to maintain the frozen Plan and to contribute funds to the Plan in such amounts that may be necessary to enable the Plan to pay vested accrued benefits as they become due and payable to participants and beneficiaries in the ordinary course of business.

**C. Actuarial Assumptions**

The actuarial present value of accumulated plan benefits is determined by the independent actuary using the Individual Entry Age Normal actuarial cost method, and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation dates and the expected date of payment.

The significant actuarial assumptions used in the valuations as of January 1, 2004 were (a) life expectancy of participants (1983 Group Annuity Mortality Table was used), (b) retirement age of 55 and 10 years of service or age of 62 and (c) investment return. The valuations included an assumed average rate of return of 6.50%, net of investment expenses. An amortization period of 15 years was used to calculate the annual required contribution.

### Schedule of Funding Progress

(Dollar amounts in thousands)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded AAL</b>	<b>Funded Ratio</b>
12/31/2004	\$ 10,399	\$ 28,463 *	\$ 18,064	36.54%
12/31/2003**	11,984	25,975	13,990	46.14%
12/31/2002**	11,298	25,510	14,212	44.29%
12/31/2001**	13,179	25,971	12,791	50.75%
12/31/2000**	13,719	22,120	8,401	62.05%

This plan covers inactive participants. There are no related payroll costs.

\*Estimated liabilities as of 12/31/04 are based on January 1, 2004 data.

\*\*Data provided to actuary was unaudited.

### Schedule of Employer Contributions

(Dollar amounts in thousands)

<b>Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Employer Contributions</b>	<b>Percentage Contributed</b>
2004	\$ 1,717	\$ 2,000	116.51%
2003	1,972	177	9.20%
2002	2,011	813	40.46%
2001	1,483	1,349	90.70%
2000	1,246	1,357	108.91%