



## 2004 Annual Report

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### 2004 Commissioners

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### Port Officers

Christopher Keuss	Executive Director
Marla Kempf	Deputy Director
Tina Drennan	Finance Manager

Bradford Cattle	Port Attorney
James Traner	Port Auditor

# Port of Edmonds 2004 Annual Report

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**Annual Report**  
**Port of Edmonds**  
**MCAG No. 1759**

Submitted pursuant to RCW 43.09.230

to the

State Auditor's Office

**For the Fiscal Year Ended December 31, 2004**

PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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The discussion and analysis of the Port of Edmonds' (the Port) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Port and to identify any significant changes in financial position. Please read it in conjunction with the Port's financial statements.

The Port of Edmonds is a Special Purpose Municipal Government. The Port was created in 1948 by a vote of the citizens of the Port district. The district encompasses portions of the City of Edmonds and all of the Town of Woodway. Ports exist to build infrastructure and promote economic development within their districts. Ports are often, though not always, involved in transportation activities. The Port of Edmonds operates a marina for recreational boating on Puget Sound and rents its land to commercial users who then build suitable facilities on the land. Additionally, the Port owns two buildings and rents portions of those buildings to a yacht broker, two restaurants, and a yacht club.

Five elected Port Commissioners administer the Port. In accordance with the laws of Washington, the Commissioners have appointed an Executive Director to manage Port operations.

The Port maintains the Port of Edmonds marina. The facility consists of the marina with over 670 slips, a dry stack storage facility with over 276 spaces, two public boat launches, a workyard, a fuel dock, guest moorage, offices, and parking facilities.

In addition to the Port's operating businesses, the Port is the landowner of a 14 acre site known as Harbor Square. The Port is managing the costly cleanup of environmental damages caused by a former owner of this property. The Environmental Remediation Site was contaminated with tar-like asphalt batch plant residuals that seeped into the ground. The Port accrued cleanup costs of \$560,000 in 2003, and \$477,000 in 2004 for a total estimated cleanup cost of \$1,037,000. The Port expects to complete this cleanup in 2005.

### FINANCIAL HIGHLIGHTS

In 2004, the Port's overall operating revenues increased, going up \$30,056, or 1% over 2003.

The Port's overall operating costs also increased in 2004, going up \$209,353, or 6% over 2003 operating expense levels.

The Port's overall net operating income was \$725,489 in 2004.

The Port's decrease in net assets was \$34,413. This represents a reduction of approximately of 85% of the prior year's decrease in net assets.

The Port's assets exceeded its liabilities by \$25,648,383 (net assets) as of December 31, 2004.

PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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USING THE ANNUAL REPORT

Government accounting falls under the control of the Government Accounting Standards Board (GASB). In 2003, the Port implemented a new reporting model mandated by GASB referred to as GASB Statement No. 34. GASB 34 requires a separate fund financial statement for each Port fund that is supported by a separate debt issue. All of the Port bond issues are general in nature and are obligations of the Port as a whole. Therefore, all of the assets and liabilities of the Port are presented in one Proprietary Fund. No allocation of assets or liabilities to particular lines of business is required by GASB 34 and no such information is presented in these financial statements. The Port does not maintain any trustee or agency funds.

Ports perform their accounting and financial reporting for their activities very much like a business. The Port prepares an income statement, manages operations, and plans capital investment strategies. Ports collect revenues from services performed for customers and pay for expenses related to those services. However, Ports are municipal governments. As such, Ports collect property tax revenues from the property owners within the Port district. These tax revenues go to support the capital investments made by the Port. Often, Ports will use tax revenues to pay for debt incurred to construct facilities that are used to support Port functions. Sometimes, Ports will use a portion of their tax revenue to pay for operating expenses. The Port of Edmonds uses its tax revenue to pay for Commission costs and public amenities.

The financial statements provide a broad view of the Port's operations in a manner similar to a private-sector business. The financial statements take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

The Statement of Net Assets (formerly known as the Balance Sheet) presents all of the Port's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in the Port's net assets may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Port's net assets changed during the year. Revenues less expenses, when combined with other nonoperating items such as investment income, tax receipts and interest expense, results in a net increase or decrease in the Port's net assets for the year.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, and investing and financing activities. A reconciliation of the cash provided by operating activities to the Port's operating income as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets is also included.

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

PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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USING THE ANNUAL REPORT (CONTINUED)

One of the questions to be answered by the financial statements would be “Is the Port as a whole better off or worse off as a result of this year’s activities?” Changes in net assets and cash flows are a couple of ways to measure the financial position of the Port. Increases in Net Assets as a result of the year’s operations indicate an improved financial position. For 2004, the Port’s Net Assets decreased by \$34,413 or .13%, which shows that the Port of Edmonds performed about the same in 2004 as it did in 2003. Cash flows show if the Port is spending more money than it received. In 2004, the Port of Edmonds spent \$69,551 more than it received. This increase in spending is expected as the Port increased its purchase of investments and proceeded with environmental cleanup on one of its properties. Over all, the Port is in about the same financial position as it was in 2003.

FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS

Summary of Assets, Liabilities, and Net Assets

	2004	2003	Increase (Decrease)	% Change
Current Assets	\$ 5,947,679	\$ 5,537,377	\$ 410,302	7.41%
Restricted Assets	1,308,355	1,293,694	14,661	1.13%
Capital Assets	29,450,770	30,263,588	(812,818)	-2.69%
Other Noncurrent Assets	600,163	691,048	(90,885)	-13.15%
<b>Total Assets</b>	<b>37,306,967</b>	<b>37,785,707</b>	<b>(478,740)</b>	<b>-1.27%</b>
Current Liabilities	1,948,140	1,271,780	676,360	53.18%
Noncurrent Liabilities	9,710,444	10,831,131	(1,120,687)	-10.35%
<b>Total Liabilities</b>	<b>11,658,584</b>	<b>12,102,911</b>	<b>(444,327)</b>	<b>-3.67%</b>
Invested in Capital Assets, Net of Related Debt	19,150,326	19,417,457	(267,131)	-1.38%
Unrestricted	6,498,057	6,265,339	232,718	3.71%
<b>Total Net Assets</b>	<b>\$ 25,648,383</b>	<b>\$ 25,682,796</b>	<b>\$ (34,413)</b>	<b>-0.13%</b>

This discussion of the Port’s financial statements includes an analysis of major changes in the assets and liabilities for 2004, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port’s Net Assets decreased by \$34,413, or .13% in 2004, for a total of \$25,648,383. Of this amount \$19,150,326 reflects the Port’s investment in capital assets, net of debt. This equals 75% of the total net assets.

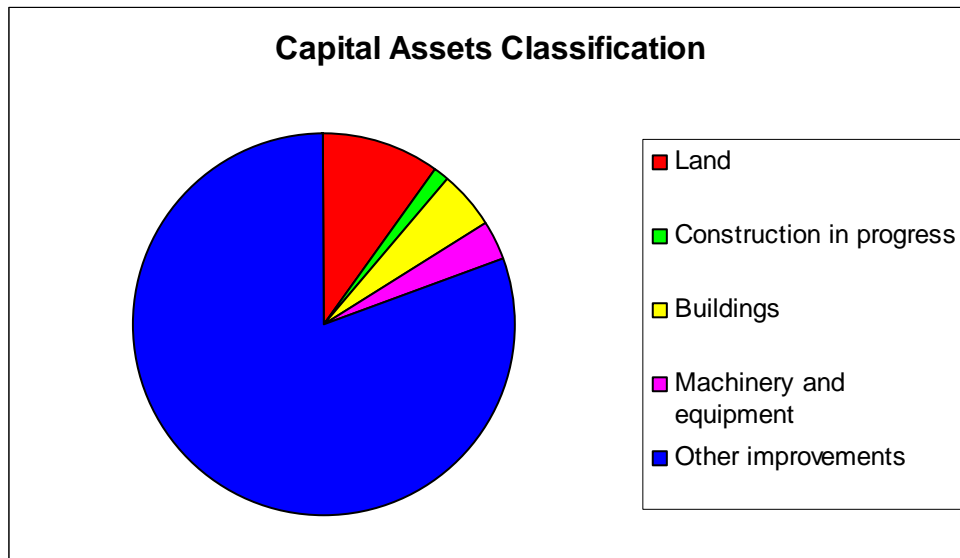
PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS (CONTINUED)

The Port has booked the acquisition of all assets at historical costs on its Statement of Net Assets. The Port has received FEMA grants to aid in reconstruction of the marina after the marina collapse in 1996. The contributions received from other governments for these assets are shown in the “Invested in Capital Assets” account on the Port’s Statement of Net Assets. GASB 34 requires the Port to capitalize and depreciate all of the assets owned or controlled by the Port, which is done on these financial statements.

The Port maintained capital assets of \$29,450,770 as of 12/31/2004. The book value of the assets declined by \$812,818 in 2004 as a result of depreciation charged against revenue in the year, offset by investments in net capital assets. When the Port invests less than depreciation in new capital assets in a year, the book value of its asset base declines. See Note 4 in the Notes to the Financial Statements for more information.



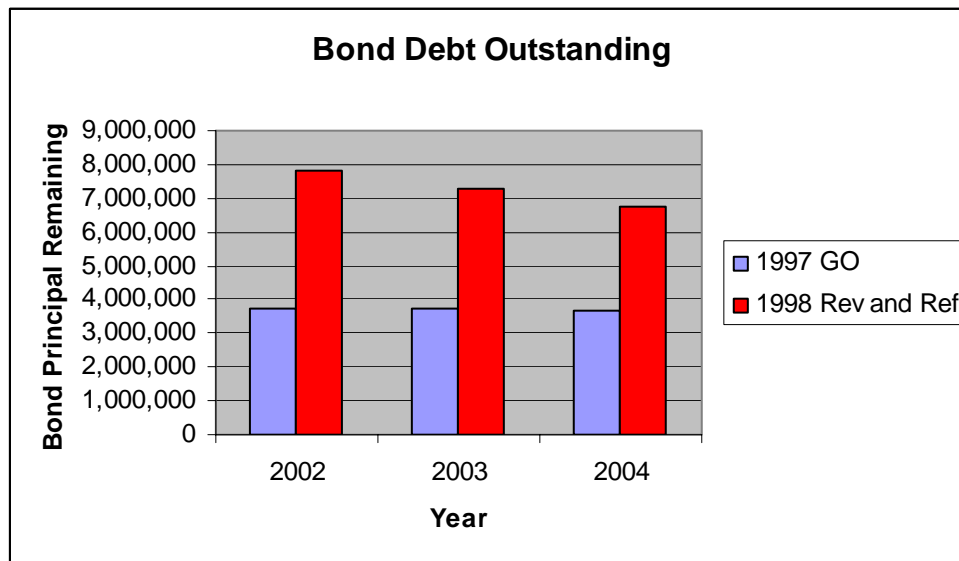
The Port’s current liabilities as of 12/31/2004 are debts that the Port will repay in 2005. The total current liabilities increased by \$676,360 in 2004. Current liabilities include payments for expenses already incurred, accrued interest on the Port’s bonds, the principal amount of the bond payments due in 2005, and environmental remediation expenses that will occur in 2005.

The Port’s long term liabilities decreased in 2004, due to payments for environmental remediation and payments of bond principal. General Obligation bonds outstanding at 12/31/2004 amounted to \$3,695,000, a decrease of \$25,000 from the prior year. Revenue and Refunding bonds outstanding at 12/31/2004 amounted to \$6,740,000, a decrease of \$530,000 from the prior year. See Note 8 in the Notes to the Financial Statements for more information.

PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS (CONTINUED)



FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Summary of Revenues, Expenses, and Changes in Fund Net Assets

	2004	2003	Increase (Decrease)	% Change
Operating Revenues	\$ 4,544,197	\$ 4,514,141	\$ 30,056	0.67%
Nonoperating Revenues	294,527	133,585	160,942	120.48%
<b>Total Revenues</b>	<b>4,838,724</b>	<b>4,647,726</b>	<b>190,998</b>	<b>4.11%</b>
Operating Expenses	3,818,708	3,609,355	209,353	5.80%
Nonoperating Expenses	1,054,429	1,268,401	(213,972)	-16.87%
<b>Total Expenses</b>	<b>4,873,137</b>	<b>4,877,756</b>	<b>(4,619)</b>	<b>-0.09%</b>
<b>Decrease in Net Assets</b>	<b>\$ (34,413)</b>	<b>\$ (230,030)</b>	<b>\$ 195,617</b>	<b>85.04%</b>

While the Statement of Net Assets shows the change in net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. The Port's total revenues increased by \$190,998 over 2003. Marina operations revenues increased by 3.8% over 2003. Property lease and rental operations revenues increased by \$131,877 from 2003. In 2003, the Port of Edmonds determined that one of its land tenants had under reported approximately \$143,000 in rent to the Port of Edmonds over the past 6 years. This revenue due to the Port was recorded in 2003.

Expenses decreased by \$4,619 from 2003.

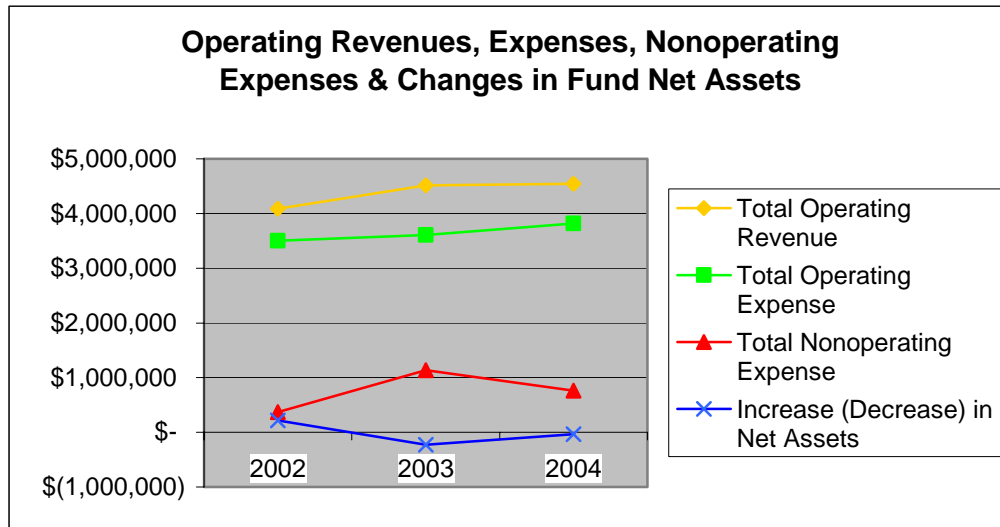
PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (CONTINUED)

Nonoperating results included a decrease in investment income of \$10,088, due to lower interest rates available compared to rates received on maturing investments. Interest expense decreased by \$25,618 as outstanding bond principal is repaid.

The Port has been working on resolving an environmental issue for several years. As any recoveries are subject to potential litigation, the Port is expensing these costs as required by generally accepted accounting principles. At such time that the Port is successful in its claim against potentially responsible parties, the liability for environmental damages will be reduced accordingly. The Port accrued environmental expenses and established an environmental liability of \$560,000 for cleanup in 2003. This amount was increased by an additional \$477,000 in 2004. The Port expects that this cleanup will be complete by the middle of 2005.



	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total Operating Revenue	\$ 4,085,383	\$ 4,514,141	\$ 4,544,197
Total Operating Expense	3,499,321	3,609,355	3,818,708
Total Nonoperating Expense	369,680	1,134,816	759,902
Increase (Decrease) in Net Assets	<u>\$ 216,382</u>	<u>\$ (230,030)</u>	<u>\$ (34,413)</u>

PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (CONTINUED)

All of the functions of the Port are considered in the numbers shown above, including the cost of general government of the Port District. Since the Port is a Special Purpose government, all of its assets and liabilities are shown in its Proprietary Fund. The Port incurs a substantial amount of governmental activity expense, such as Port management and administration, public facility maintenance, and public meeting expense. All of these expenses of the Port are reported in the Proprietary Fund. The “one fund” model is used in compliance with the rules of GASB 34 which state that separately issued debt and separately issued classified assets are needed in order for a separate fund to exist. Most of these governmental costs are contained in the General and Administrative cost centers shown on the Port’s financial reports. Larger ports may have to report some of their activities in separate funds.

FINANCIAL ANALYSIS – STATEMENT OF CASH FLOWS

Summary of Statement of Cash Cash Flows

	2004	2003	Increase (Decrease)	% Change
Cash Flows from Operating Activities	\$ 1,878,673	\$ 1,616,457	\$ 262,216	16.22%
Cash Flows from Noncapital Financing Activities	189,345	195,618	(6,273)	-3.21%
Cash Flows from Capital and Related Financing Activities	(1,811,318)	(1,851,170)	39,852	-2.15%
Cash Flows from Investing Activities	(326,251)	(94,971)	(231,280)	243.53%
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(69,551)</b>	<b>(134,066)</b>	<b>64,515</b>	<b>-48.12%</b>
Balances - Beginning of the Year	1,638,877	1,772,943	(134,066)	-7.56%
<b>Balances - End of the Year</b>	<b>\$ 1,569,326</b>	<b>\$ 1,638,877</b>	<b>\$ (69,551)</b>	<b>-4.24%</b>

The Statement of Revenues, Expenses, and Changes in Net Assets shows the nature and source of the changes to net assets on a full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. The Statement of Cash Flows shows where cash was received and spent by the Port.

Cash Flows from Operating Activities are up 16% from 2003, which is good as this shows that the Port is “making money” on its regular activities. Noncapital financing cash flows include cash received from property taxes and customer deposits. Capital activities include cash spent for the purchase of assets, principal and interest paid on capital debt, and environmental remediation. The Port spent \$1,811,318 on these items in 2004, \$39,852 less than in 2003. Cash from investing activities show the net purchases and maturities of the Port’s investments, and the interest earned on those investments. In 2004, the Port purchased \$364,350 more investments than matured.

Total cash and cash equivalents decreased in 2004 by \$69,551 from 2003. Unplanned, large, or consistent decreases in cash may be a sign of a business investing and expanding or a business in trouble. The Port’s decrease in cash was planned and expected. The Port increased the purchase of investments in 2004 and spent \$543,358 on environmental remediation. The Port expects to recover a portion of the remediation costs from the previous owner of the property.

PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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ISSUES FACING THE PORT

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

1. The Port is managing a complex and costly cleanup of environmental damages caused by a former owner of the property known as Harbor Square. The Environmental Remediation Site was contaminated with tar-like asphalt batch plant residuals that seeped into the ground. The Port accrued cleanup costs of \$560,000 in 2003, and \$477,000 in 2004 for a total estimated cleanup cost of \$1,037,000. The Port expects to complete this cleanup in 2005.
2. Harbor Square Associates, one of the Port's land tenants, filed a lawsuit in 2003 against the Port of Edmonds asserting that the property it leases from the Port is contaminated with hazardous substances and seeks clean up, remediation, and restoration of the property and recovery of damages and losses allegedly incurred as a result of the contamination. A trial date has been set for December 2005.
3. The Port filed a third-party lawsuit in 2003 against the former owner of the property, Union Oil Company of California contending that Unocal is responsible for any contamination of the property owned by the Port. A trial date has been set for December 2005.
4. The Port plans to replace its north seawall, timber bulkhead, and repair its mid-marina breakwater in 2005 at an estimated cost of \$2,300,000.
5. The Port determined that one of its land tenants had under reported approximately \$143,000 in rent to the Port of Edmonds. The Port of Edmonds filed a lawsuit in 2004 against this tenant. Litigation is pending.
6. The Port is considering refunding its 1997 Limited Tax General Obligation Bonds in 2005. The Port may proceed with the refund if the present value of the savings exceeds \$200,000.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report, or if you need additional financial information, please contact Tina Drennan, Finance Manager, at the Port of Edmonds, 336 Admiral Way, Edmonds, WA 98020 or by telephone at 425-774-0549.

To the Commissioners  
Port of Edmonds  
Edmonds, Washington

We have compiled the accompanying statements of net assets of the Port of Edmonds as of December 31, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund net assets, and cash flows for the years then ended and the accompanying supplementary information contained on schedules 04, 05, 08, 09 and 10 on pages 30-36 which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

*Traner Smith & Co., P.S.*

May 19, 2005

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Members of Washington Society of Certified Public Accountants

PORT OF EDMONDS  
COMPARATIVE STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2004 AND 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 1)	\$ 1,061,871	\$ 1,146,083
Investments (Note 2)	4,439,676	3,957,864
Taxes receivable (Notes 1 and 3)	5,717	6,484
Accounts receivable (net of allowance for uncollectibles) (Note 1)	273,527	252,297
Interest receivable	-	38,381
Inventory (Note 1)	41,736	24,047
Prepays	125,152	112,221
Total Current Assets	5,947,679	5,537,377
<b>RESTRICTED ASSETS: (Note 1)</b>		
Cash and cash equivalents	507,455	492,794
Investments	800,900	800,900
Total Restricted Assets	1,308,355	1,293,694
<b>NONCURRENT ASSETS:</b>		
<b>Capital Assets: (Note 4)</b>		
Property, plant and equipment	38,760,388	38,759,343
Construction in progress	531,919	381,013
Less: Accumulated depreciation	(9,841,537)	(8,876,768)
Total Net Capital Assets	29,450,770	30,263,588
<b>Other Noncurrent Assets:</b>		
Lease acquisition costs, net of accumulated amortization (Note 1)	380,927	444,407
Deferred interest	219,236	246,641
Total Other Noncurrent Assets	600,163	691,048
<b>TOTAL ASSETS</b>	<b>\$ 37,306,967</b>	<b>\$ 37,785,707</b>

See accompanying notes and accountant's compilation report.

PORT OF EDMONDS  
COMPARATIVE STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2004 AND 2003

<u>LIABILITIES</u>		
	<b>2004</b>	<b>2003</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 193,827	\$ 62,887
Accrued expenses (Note 1)	235,727	199,149
Accrued interest payable	185,458	196,462
Customer deposits	249,486	238,282
Current portion of long-term debt (Note 8)	590,000	575,000
Environmental remediation liability (Notes 1, 9, and 10)	493,642	-
	<u>1,948,140</u>	<u>1,271,780</u>
<b>NONCURRENT LIABILITIES:</b>		
General obligation bonds, net of current portion (Note 8)	3,617,169	3,637,878
Revenue bonds, net of current portion (Note 8)	6,093,275	6,633,253
Environmental remediation liability (Notes 1, 9, and 10)	-	560,000
	<u>9,710,444</u>	<u>10,831,131</u>
<b>Total Liabilities</b>	<u><b>11,658,584</b></u>	<u><b>12,102,911</b></u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	19,150,326	19,417,457
Unrestricted	6,498,057	6,265,339
<b>TOTAL NET ASSETS</b>	<u><b>\$ 25,648,383</b></u>	<u><b>\$ 25,682,796</b></u>

See accompanying notes and accountant's compilation report.

PORT OF EDMONDS  
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<b>2004</b>	<b>2003</b>
<b>OPERATING REVENUES:</b>		
Marina operations	\$ 3,899,587	\$ 3,753,900
Property lease/rental operations	644,610	760,241
Total Operating Revenues	4,544,197	4,514,141
<b>OPERATING EXPENSES:</b>		
General operations	2,039,264	1,896,703
Maintenance	84,933	64,432
General and administrative	656,996	612,539
Depreciation and amortization (Note 4)	1,037,515	1,035,681
Total Operating Expenses	3,818,708	3,609,355
Operating Income (Loss)	725,489	904,786
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment income	117,179	127,267
Taxes levied for general purpose (Note 3)	174,377	175,206
Loss on abandoned projects	-	(174,142)
Gain (loss) on disposition of fixed assets	(26)	537
Interest expense (Note 8)	(577,045)	(602,663)
Environmental remediation expense (Notes 9 and 10)	(477,000)	(661,183)
Election expense	-	(4,508)
Other nonoperating revenues	2,613	4,670
Total Nonoperating Expenses	(759,902)	(1,134,816)
Decrease in net assets	(34,413)	(230,030)
Net assets - beginning of period	25,682,796	25,912,826
Net assets - end of period	\$ 25,648,383	\$ 25,682,796

See accompanying notes and accountant's compilation report.

PORT OF EDMONDS  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 4,519,391	\$ 4,311,420
Payments to suppliers	(1,358,632)	(1,442,625)
Payments to employees	(1,282,086)	(1,252,338)
Net cash provided by operating activities	1,878,673	1,616,457
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from property taxes (Note 3)	175,144	174,659
Customer deposits	11,204	20,797
Miscellaneous expense, net	2,997	162
Net cash provided by noncapital financing activities	189,345	195,618
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases and construction of capital assets (Note 4)	(161,243)	(745,730)
Principal paid on capital debt (Note 8)	(575,000)	(550,000)
Interest paid on capital debt (Note 8)	(531,333)	(556,455)
Environmental remediation (Notes 9 and 10)	(543,358)	-
Other receipts (payments)	(384)	1,015
Net cash used in capital and related financing activities	(1,811,318)	(1,851,170)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Maturities of certificates of deposit (Note 2)	5,236,550	4,923,221
Purchases of certificates of deposit (Note 2)	(5,600,900)	(5,107,078)
Interest and dividends	38,099	88,886
Net cash used in investing activities	(326,251)	(94,971)
Net decrease in cash and cash equivalents	(69,551)	(134,066)
Balances - beginning of the year	1,638,877	1,772,943
Balances - end of the year (Note 1)	\$ 1,569,326	\$ 1,638,877
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>		
Operating income (loss)	\$ 725,489	\$ 904,786
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	1,037,515	1,035,682
Non-cash write-offs	-	(20,665)
Change in assets and liabilities:		
Receivables, net	(21,230)	(182,056)
Inventories	(17,689)	(1,472)
Prepaid expenses	(12,930)	21,213
Accounts and other payables	130,940	(139,118)
Accrued expenses	36,578	(1,913)
Net cash provided by operating activities	\$ 1,878,673	\$ 1,616,457

See accompanying notes and accountant's compilation report.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Edmonds (the Port) was incorporated in December, 1948, and operates under the laws of the State of Washington applicable to a Public Port District. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Port has elected under GASB Statement 20 to not follow FASB statement issued after November 20, 1989. In June 1999, GASB approved Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements). GASB Statement 34 establishes a new financial reporting model for all state and local government entities. The Port has also implemented GASB Statement 37, Basic Financial Statements – and Management’s Discussing and Analysis – For State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Disclosures, both of which modify GASB Statement 34.

### A. Reporting Entity

The Port is a special purpose government and provides marina and property lease/rental operations to the general public and is supported primarily through user charges.

The Port of Edmonds is governed by an elected five member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

### B. Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting and Reporting System for Classified Port Districts* in the State of Washington.

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

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting and Reporting (Continued)

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

The Port distinguishes between operating and nonoperating results. Operating revenues and expenses generally result from providing services to the Port's customers. All revenues and expenses not related to providing services to customers are reported as nonoperating.

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Assets, Liabilities, and Equities

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2004 and 2003, the treasurer was holding \$1,569,326, and \$1,638,877, respectively, in short-term residual investments of surplus cash. This amount is classified on the statement of net assets as cash and cash equivalents.

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

2. Temporary Investments - See Note 2.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Note 3). Interest receivable consists of amounts earned on investments at the end of the year.

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equities (Continued)

3. Receivables (Continued)

Receivables have been recorded net of allowance for uncollectibles. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. The allowance for uncollectibles for other receivables is \$1,000 at December 31, 2004 and 2003.

4. Inventories

Inventories are valued by the FIFO (first-in, first-out basis) method, which approximates the market value.

5. Restricted Assets

In accordance with bond resolutions, separate restricted accounts are required to be established. These accounts contain resources for debt service. Specific debt service reserve requirements are described in Note 8. In addition, the Port has designated tax revenues to be used for specified purposes.

The restricted assets are composed of the following:

Cash and Cash Equivalents – Debt Service Account	\$ 434,741
Cash and Cash Equivalents – Public Amenities Account	72,714
Investments – Bond Reserve Account	<u>800,900</u>
Total Restricted Assets	<u>\$1,308,355</u>

6. Lease Acquisition Costs

Lease acquisition costs represent the cost of acquiring a lease with an existing tenant. The cost of acquisition is amortized over the remaining life of the lease. Accumulated amortization amounted to \$571,391 and \$507,911 at December 31, 2004 and 2003, respectively.

7. Capital Assets, Depreciation, and Amortization - See Note 4.

8. Unamortized Debt Issuance Costs

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equities (Continued)

9. Compensated Absences

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

Each employee may carry forward 120 hours of vacation pay to the following year. Unused vacation pay is payable upon separation, retirement, or death. Sick leave may accumulate up to 1,000 hours. No accrual is made for sick pay as it expires if unused.

10. Other Accrued Expenses

These accounts consist of accrued leasehold, sales, business, and payroll taxes, employee withholding, and vacation and wages payable.

11. Long-Term Debt - See Note 8.

12. Environmental Remediation Costs

Future costs under environmental remediation obligations are not discounted to present value.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. Investments

As required by state law, all investments of the Port's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. All temporary investments are stated at cost. Other property and investments are shown on the statement of net assets at cost.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The Port's investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes investments that are either insured, registered or held by the Port or its agent in the Port's name. All of the Port's investments meet this criterion. The Port has invested all of its unrestricted and restricted investments in the State Treasurer's Investment Pool and in state approved depositories.

<u>Investment</u>	<u>Value</u>
State Investment Pool	\$ 739,622
Certificates of Deposit	<u>5,240,576</u>
Total	<u>\$5,980,198</u>

Custodial credit risk is the risk that in event of a failure of a counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. None of the Port's investments are held by counterparties.

NOTE 3 – PROPERTY TAXES

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

Property Tax Calendar

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

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized when cash is collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 3 – PROPERTY TAXES (CONTINUED)

The Port's regular levy for 2004 was approximately \$0.0658 per \$1,000 on an assessed valuation of \$2,658,419,549 for a total regular tax levy of \$175,000. In 2003, the regular tax levy was \$175,000.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

- A. Expenditures for capital assets in excess of \$1,000, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets of \$1,000 or more are valued at historical cost or estimated historical costs, where historical cost is not known.

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

The original cost of operating property sold, retired or otherwise disposed of and the cost of installation, less salvage, is removed from the Port of Edmonds' capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method based on the following estimated useful lives:

Buildings and Structures	10 to 50 years
Machinery and Equipment	3 to 15 years
Other Improvements	5 to 99 years

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

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

	Beginning Balance <u>1/1/2004</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>12/31/2004</u>
Capital assets, not being depreciated:				
Land	\$ 3,973,675	\$ -	\$ -	\$ 3,973,675
Construction in progress	<u>381,013</u>	<u>270,343</u>	<u>119,437</u>	<u>531,919</u>
<b>Total capital assets, not being depreciated</b>	<u><u>4,354,688</u></u>	<u><u>270,343</u></u>	<u><u>119,437</u></u>	<u><u>4,505,594</u></u>
Capital assets, being depreciated				
Buildings and structures	1,816,653	5,480	-	1,822,133
Machinery and equipment	1,280,334	4,857	9,292	1,275,899
Other improvements	<u>31,688,681</u>	<u>-</u>	<u>-</u>	<u>31,688,681</u>
<b>Total capital assets being depreciated</b>	<u><u>34,785,668</u></u>	<u><u>10,337</u></u>	<u><u>9,292</u></u>	<u><u>34,786,713</u></u>
Less accumulated depreciation for:				
Buildings and structures	927,263	61,994	-	989,257
Machinery and equipment	876,967	84,061	9,266	951,762
Other improvements	<u>7,072,538</u>	<u>827,980</u>	<u>-</u>	<u>7,900,518</u>
<b>Total accumulated depreciation</b>	<u><u>8,876,768</u></u>	<u><u>\$974,035</u></u>	<u><u>\$ 9,266</u></u>	<u><u>9,841,537</u></u>
<b>Total capital assets, being depreciated, net</b>	<u><u>\$25,908,900</u></u>			<u><u>\$24,945,176</u></u>

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

C. Construction Commitments

The Port has active construction projects as of December 31, 2004. The projects and the Port's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Administration Building Seismic Modifications	\$ 38,755	\$ -
Dry Stack Expansion	11,854	-
Fuel Dock Gangway	9,532	40,000
H-I Dock Span	1,554	21,943
M/N Dock Gangway Replacement	3,371	-
Maintenance Building	6,914	-
Mid-Marina Breakwater	36,588	-
New Administration Building	33,000	-
North Boardwalk	21,841	-
North Parking Lot	98,928	-
North Seawall	172,631	-
Point Wells	14,879	-
Public Plaza	21,717	12,912
Retail Building	11,685	-
South Breakwater	99	-
View Cutouts	\$ 48,571	\$ -

NOTE 5 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 6 – PENSION PLANS

Substantially all Port of Edmonds' 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*.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 6 – PENSION PLANS (CONTINUED)

**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.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 6 – PENSION PLANS (CONTINUED)

Plan Description (Continued)

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 Nonvested	<u>54,081</u>
<b>Total</b>	<u><b>239,913</b></u>

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 governments, 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.

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 6 – PENSION PLANS (CONTINUED)

Funding Policy (Continued)

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	1.38%	1.38%	1.38%**
Employee	6.00%	1.18%	***

\*The employer rates include the employer administrative expense fee currently set at 0.19%.

\*\*Plan 3 defined benefit portion only.

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

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2004	\$3,713	\$ 8,823	\$123
2003	\$3,563	\$ 7,200	\$193
2002	\$2,995	\$10,073	\$ -

NOTE 7 – RISK MANAGEMENT

The Port of Edmonds 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 counties and two 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, floor 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.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 7 – RISK MANAGEMENT (CONTINUED)

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 \$5,000 of the deductible amount of each liability and property claim. The Pool is responsible for the remaining \$495,000 on liability losses, \$95,000 on property losses, and \$0 on boiler and machinery losses. 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 years and must give notice 60 days before terminating participation. Members joining after October 2000 join the pool with one full fiscal year commitment and must give notice six months before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three 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 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 8 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

The Port of Edmonds issues general obligation and revenue bonds to finance the acquisition, purchase, or construction of various projects. The Port has also issued bonds in prior years to refund previously issued debt.

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 8 – LONG-TERM DEBT AND LEASES (CONTINUED)

A. Long-Term Debt (Continued)

The 1997 general obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Infrastructure improvements to marina including marina reconstruction, bulkhead/promenade improvements, and a new dry stack storage facility	5.00%-5.60%	\$3,695,000

The annual debt service requirements to maturity of general obligation bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 25,000	\$ 203,950
2006	25,000	202,694
2007	25,000	201,425
2008	30,000	200,008
2009	30,000	198,433
2010-2017	<u>3,560,000</u>	<u>1,090,136</u>
Total	<u>\$3,695,000</u>	<u>\$2,096,646</u>

The 1998 revenue and refunding bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Refund of 1992 Revenue Bonds and capital projects including marina reconstruction, bulkhead/promenade project, a new dry stack storage facility	4.20%-4.80%	\$6,740,000

The annual debt service requirements to maturity of revenue bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 565,000	\$ 303,320
2006	600,000	279,590
2007	625,000	254,090
2008	650,000	227,215
2009	675,000	198,940
2010-2017	<u>3,625,000</u>	<u>622,713</u>
Total	<u>\$6,740,000</u>	<u>\$1,885,868</u>

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

NOTE 8 – LONG-TERM DEBT AND LEASES (CONTINUED)

A. Long-Term Debt (Continued)

Unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2004 and 2003, the Port had \$1,235,641 and \$1,246,165 respectively, available in sinking funds and reserves as required by bond indentures.

B. Changes in Long-Term Liabilities

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

	Beginning Balance <u>1/1/04</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>12/31/04</u>	Due Within <u>One Year</u>
Bonds Payable:					
G.O. Bonds	\$ 3,695,000	\$ -	\$ 25,000	\$3,670,000	\$ 25,000
Rev & Ref Bonds	6,740,000		565,000	6,175,000	565,000
Less Deferred Amounts:					
For issuance costs	<u>163,869</u>	<u>-</u>	<u>29,313</u>	<u>134,556</u>	<u>-</u>
Total bonds payable	10,271,131	-	560,687	9,710,444	590,000
Environmental liability	<u>560,000</u>	<u>-</u>	<u>560,000</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>\$10,831,131</u>	<u>\$ -</u>	<u>\$1,120,687</u>	<u>\$9,710,444</u>	<u>\$590,000</u>

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 9 – ACCRUED ENVIRONMENTAL LIABILITIES

The Port, based on engineering estimates, accrued a \$477,000 liability in 2004 to cover the environmental remediation-related expenses associated with the contamination in an area of Harbor Square, a rental property. The Port is pursuing litigation against potentially responsible parties. Until such time that the litigation is resolved, no estimates for potential recovery is reflected in the financial statement. See Note 10 for contingencies and litigation related to environmental issues.

NOTE 10 – CONTINGENCIES AND LITIGATION

A. All Liabilities

The Port of Edmonds has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes that it is probable that the Port will have to make payment.

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.

B. Environmental Liabilities

The Port of Edmonds is subject to laws and regulations relating to the protection of the environment. The Port's policy is to accrue environmental and cleanup related costs when it is both probable that a liability has been incurred and when the amount can be reasonably estimated.

The Port of Edmonds is involved in cleaning up a property known as the Harbor Square property, which was purchased by the Port from the Union Oil Company in 1978. From 1924 to 1968, portions of the property were used as an oil and gasoline depot and distribution facility, a railcar cleaning facility, an asphalt batch plant, and heavy-equipment storage. Several remedial investigations were conducted at the property from 1989 to 2003. In June 2003, a supplemental site investigation was conducted at the direction of the Department of Ecology to further define the extent of contamination at the property identified during previous investigations, to help identify any additional areas of contamination, and to further evaluate any impacts to groundwater. The Port developed a remediation plan based on that investigation. The Port of Edmonds began remediation activities in August 2004. The activities include the excavation and offsite management of soil containing tar-like asphalt batch plant residuals present within a limited area in the southwest portion of the property. The Port intends to restore this property to a condition that will meet the Department of Ecology's No Further Action status. The costs of cleanup for 2004 were \$543,358. Future estimated costs for this cleanup are \$493,642. Total estimated cleanup costs are \$1,037,000.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

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NOTE 10 – CONTINGENCIES AND LITIGATION (CONTINUED)

C. Litigation

On October 30, 2003, Harbor Square Associates, LLC, a ground lessee of the Port, filed suit against the Port of Edmonds in Snohomish County Superior Court. Harbor Square's Complaint asserts that the property it leases from the Port is contaminated with hazardous substances and seeks clean up, remediation, and restoration of the property and recovery of damages and losses allegedly incurred as a result of the contamination. On December 12, 2003, the Port filed its Answer and its Third-Party Complaint against the former owner of the property, Union Oil Company of California (Unocal), which owned the property from 1920 to 1978. The Port's Third-Party Complaint contends that Unocal is responsible for any contamination on the property owned by the Port. On February 4, 2004, Unocal filed its Answer, Counterclaim and Crossclaim, seeking contribution from the Port if Unocal is found liable. The trial is scheduled to begin in December 2005.

The Port of Edmonds initiated a lawsuit against Harbor Square Associates for underpayment of rent due to the Port. That lawsuit, Port of Edmonds v. Harbor Square Associates, Snohomish County Cause No. 04-2-09403-6, was filed on April 28, 2004, and is currently in the discovery stage. The basis for the Port's claim is that Harbor Square Associates, a ground lessee of the Port of Edmonds, has underpaid rent over the course of past years. The amount at issue in the lawsuit is \$218,505.

NOTE 11 – SEGMENT INFORMATION

The Port of Edmonds does not issue debt separately for any of its lines of business operation. Therefore, under GASB 34 and GASB 37, paragraph 17, the Port's businesses are not "Segments" and consequently, no separate information by line of business is presented.

NOTE 12 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During the years ended December 31, 2004 and 2003 the Port paid interest of \$531,333 and \$556,455, respectively.

**SUPPLEMENTARY INFORMATION**

PORT OF EDMONDS  
 DETAIL OF REVENUES AND OTHER SOURCES  
 For the Year Ended December 31, 2004

MCAG No. 1759

Schedule 04

BARS Revenue Account No.	Description	Actual Revenues
621.00	Marina user charges	\$ 2,467,975
622.00	Marina user charges	16,490
625.00	Marina real property rentals – facilities	84,775
626.00	Marina real property rentals – facilities	1,168,120
627.00	Marina personal property rentals – w/ port operators	160,760
629.00	Other	<u>1,467</u>
620.00	Total Marina Revenues	<u>3,899,587</u>
664.00	Real property rentals – land	391,242
665.00	Real property rentals – facilities	<u>253,368</u>
660.00	Total Property Lease/Rental Revenues	<u>644,610</u>
699.10	Interest income	117,179
699.20	Ad valorem taxes	177,374
699.40	Gains and losses	<u>(26)</u>
699.00	Total Nonoperating Revenues	<u>294,527</u>
600.00	Total Revenues	\$ <u>4,838,724</u>

See accountant's compilation report

PORT OF EDMONDS  
 DETAIL OF EXPENSES AND OTHER USES  
 For the Year Ended December 31, 2004

MCAG No. 1759

Schedule 05

BARS Revenue Account No.	Description	Actual Expenses
721.00	Marina operations	\$ 1,889,416
723.00	Marina maintenance	52,937
725.00	Marina allocated general and administrative	592,266
727.00	Marina depreciation	<u>953,153</u>
720.00	Total Marina Expenses	<u>3,487,772</u>
761.00	Property lease/rental operations	181,445
763.00	Property lease/rental maintenance	399
765.00	Property lease/rental allocated general and administrative	95,040
767.00	Property lease/rental depreciation	<u>54,052</u>
760.00	Total Property Lease/Rental Expenses	<u>330,936</u>
799.90	Other expense	384
799.91	Interest expense	577,045
799.98	Environmental expense	<u>477,000</u>
790.00	Total Nonoperating Expenses	<u>1,054,429</u>
700.00	Total Expenses	\$ <u>4,873,137</u>

See accountant's compilation report

PORT OF EDMONDS  
 SCHEDULE OF REAL AND PERSONAL PROPERTY TAXES  
 For the Year Ended December 31, 2004

MCAG No. 1759

Schedule 08

1	2	3	4	5	6	7
TAXES RECEIVABLE 1/1/04	TAX RATE \$/1,000	TAXES LEVIED REPORT YEAR	TAXES COLLECTED	TAX ADJUSTMENT		TAXES RECEIVABLE 12/31/04 (1+3-4+5-6)
				INCREASES	DECREASES	
\$ 6,484	0.066	\$ 174,678	\$ 174,377	\$ 623	\$ 1,691	\$ 5,717

See accountant's compilation report

PORT OF EDMONDS  
 SCHEDULE OF LONG-TERM DEBT  
 For the Year Ended December 31, 2004

G.O. Debt  
 Revenue Debt  
 Refunded Debt

MCAG No. 1759

Schedule 09  
 Page 1 of 2

I.D. NO.	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	(1) BEGINNING OUTSTANDING DEBT 1/1/04	(2) AMOUNT ISSUED IN CURRENT YEAR	(3) AMOUNT REDEEMED IN CURRENT YEAR	(4) ENDING OUTSTANDING DEBT 12/31/04 (1)+(2)-(3)
251.11	Reconstruction	06/01/97	06/01/17	\$ 3,720,000		\$ 25,000	\$ 3,695,000

See accountant's compilation report

G.O. Debt  
 Revenue Debt  
 Refunded Debt

MCAG No. 1759

Schedule 09  
Page 2 of 2

				(1)	(2)	(3)	(4)
I.D. NO.	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	BEGINNING OUTSTANDING DEBT 1/1/04	AMOUNT ISSUED IN CURRENT YEAR	AMOUNT REDEEMED IN CURRENT YEAR	ENDING OUTSTANDING DEBT 12/31/04 (1)+(2)-(3)
252.11 252.15 Total '98 Rev Bond	Improvements Refunding	01/30/98	07/01/17	\$ 7,290,000		\$ 550,000	\$ 6,740,000

See accountant's compilation report

PORT OF EDMONDS  
SCHEDULE OF LIMITATION OF INDEBTEDNESS  
AS OF DECEMBER 31, 2004

MCAG No. 1759

Schedule 10  
Page 1 of 2

Total Taxable Property Value	\$	2,658,419,549
I. Indebtedness Without A Vote		
(Legal Limit .25% or .375% if I.B. applicable)		\$ <u>6,646,049</u>
A. General Purpose Indebtedness Without A Vote		
(Legal Limit .25%)		\$ <u>6,646,049</u>
Indebtedness (Liabilities):		
GO Bonds		3,695,000
Others		1,358,140
Less Assets Available		<u>0</u>
Indebtedness Incurred - Section A		<u>5,053,140</u>
Margin of Indebtedness Available - Section A		<u><u>1,592,909</u></u>
B. Indebtedness For Acquisition Or Construction Of A Facility Without A Vote		
(Legal Limit .375%)		N/A
Indebtedness (Liabilities):		
GO Bonds		0
Others		0
Less Assets Available -		<u>0</u>
Indebtedness Incurred -Section B		<u>0</u>
Margin Of Indebtedness Available - Section B		<u><u>0</u></u>
Less: Indebtedness Incurred (Section A + B)		( <u>5,053,140</u> )
Margin Of Indebtedness Available Without A Vote		
(Section A + B)		<u><u>1,592,909</u></u>
II. Indebtedness With A 3/5 vote		<u>13,292,098</u>
Indebtedness (Liabilities):		
GO Bonds		0
Others		0
Less Assets Available -		<u>0</u>
Indebtedness Incurred - Section II		<u>0</u>
Margin of Indebtedness Available A With 3/5 Vote		\$ <u><u>13,292,098</u></u>
Total Indebtedness Allowable - Section I and II		
(Legal Limit .75%)		19,938,147
Less: Indebtedness Incurred (Section I + II)		<u>5,053,140</u>
MARGIN OF INDEBTEDNESS AVAILABLE		\$ <u><u>14,885,007</u></u>

See accountant's compilation report.

PORT OF EDMONDS  
SCHEDULE OF LIMITATION OF INDEBTEDNESS  
AS OF DECEMBER 31, 2004

MCAG No. 1759

Schedule 10  
Page 2 of 2

III Additional Indebtedness for Airport Capital Improvement Purposes Without A Vote (Legal Limit .125%)	\$	N/A
Indebtedness (Liabilities):		
GO Bonds		0
Others		0
Less Assets Available -		<u>0</u>
Indebtedness Incurred - Section III		<u>0</u>
Margin Of Indebtedness Available - Section III		<u><u>0</u></u>
IV Additional Indebtedness for Airport Capital Improvement Purposes With A 3/5 Vote (Legal Limit .125%)		N/A
Indebtedness (Liabilities):		
GO Bonds		0
Others		0
Less Assets Available -		<u>0</u>
Indebtedness Incurred - Section IV		<u>0</u>
Margin Of Indebtedness Available - Section IV	\$	<u><u>0</u></u>
Total Indebtedness Allowable - Section I - IV (Legal Limit 1.25%)		19,938,147
Less: Indebtedness Incurred (Section I - IV)		<u>5,053,140</u>
MARGIN OF INDEBTEDNESS AVAILABLE		\$ <u><u>14,885,007</u></u>

See accountant's compilation report.