



## 2005 Annual Report

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### 2005 Commissioners

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Frederick Gouge	Commissioner

### 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 2005 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, 2005**

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, 2005. 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 approximately 670 slips, a dry stack storage facility with approximately 280 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 10 acre site known as Harbor Square. The Port is managing the 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 completed this cleanup in 2005.

### FINANCIAL HIGHLIGHTS

In 2005, the Port's overall operating revenues increased, going up \$195,004, or 4% over 2004.

The Port's overall operating costs also increased in 2005, going up \$992,930, or 26% over 2004 operating expense levels. These increases were primarily caused by legal fees related to three lawsuits involving the Port. See Note 10 in the Notes to the Financial Statements for more information.

The Port's overall net operating loss was \$72,437 in 2005.

The Port's increase in net assets was \$2,434,326, or 9% over the Port's 2004 total net assets.

The Port's assets exceeded its liabilities by \$28,082,709 (net assets) as of December 31, 2005.

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 of 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 can 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 two ways of measuring the financial position of the Port. Increases in Net Assets as a result of the year’s operations indicate an improved financial position. For 2005, the Port’s Net Assets increased by \$2,434,326 or 9%, which shows that the Port of Edmonds performed better in 2005 than it did in 2004. Cash flows show if the Port is spending more money than it received. In 2005, the Port of Edmonds received \$5,647,867 more than it spent. This increase in receipts was expected as the Port decreased its purchase of investments and received a \$3,100,000 settlement. Overall, the Port is in a better financial position than it was in 2004.

FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS

Summary of Assets, Liabilities, and Net Assets

	2005	2004	Increase (Decrease)	Change
Current assets	\$ 7,462,644	\$ 6,455,134	\$1,007,510	15.61%
Restricted assets	800,900	800,900	-	0.00%
Capital assets	30,599,312	29,450,770	1,148,542	3.90%
Other noncurrent assets	<u>698,290</u>	<u>600,163</u>	<u>98,127</u>	16.35%
<b>Total Assets</b>	<b><u>39,561,146</u></b>	<b><u>37,306,967</u></b>	<b><u>2,254,179</u></b>	6.04%
Current liabilities	2,102,646	1,948,140	154,506	7.93%
Noncurrent liabilities	<u>9,375,791</u>	<u>9,710,444</u>	( 334,653)	(3.45%)
<b>Total Liabilities</b>	<b><u>11,478,437</u></b>	<b><u>11,658,584</u></b>	<b>( 180,147)</b>	(1.55%)
Invested in capital assets, net of related debt	20,568,521	19,150,326	1,418,195	7.41%
Unrestricted net assets	<u>7,514,188</u>	<u>6,498,057</u>	<u>1,016,131</u>	15.64%
<b>Total Net Assets</b>	<b><u>\$28,082,709</u></b>	<b><u>\$25,648,383</u></b>	<b><u>\$2,434,326</u></b>	9.49%

This discussion of the Port’s financial statements includes an analysis of major changes in the assets and liabilities for 2005, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port’s Net Assets increased by \$2,434,326, or 9% in 2005, for a total of \$28,082,709. Of this amount \$20,568,521 reflects the Port’s investment in capital assets, net of debt.

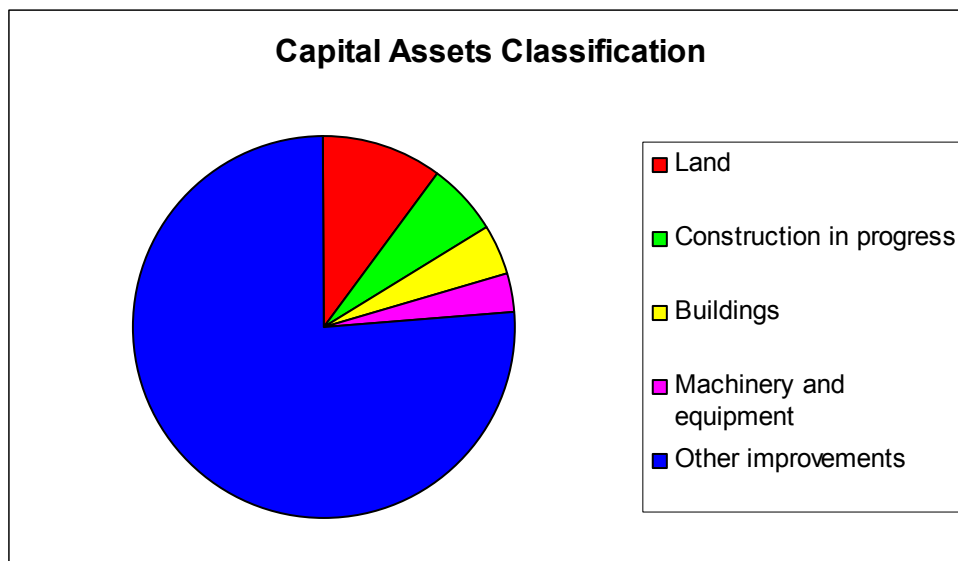
PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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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 collapsed 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 \$30,599,312 as of 12/31/2005. The book value of the assets increased by \$1,148,542 in 2005 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital assets in a year, the book value of its asset base increases. See Note 4 in the Notes to the Financial Statements for more information.



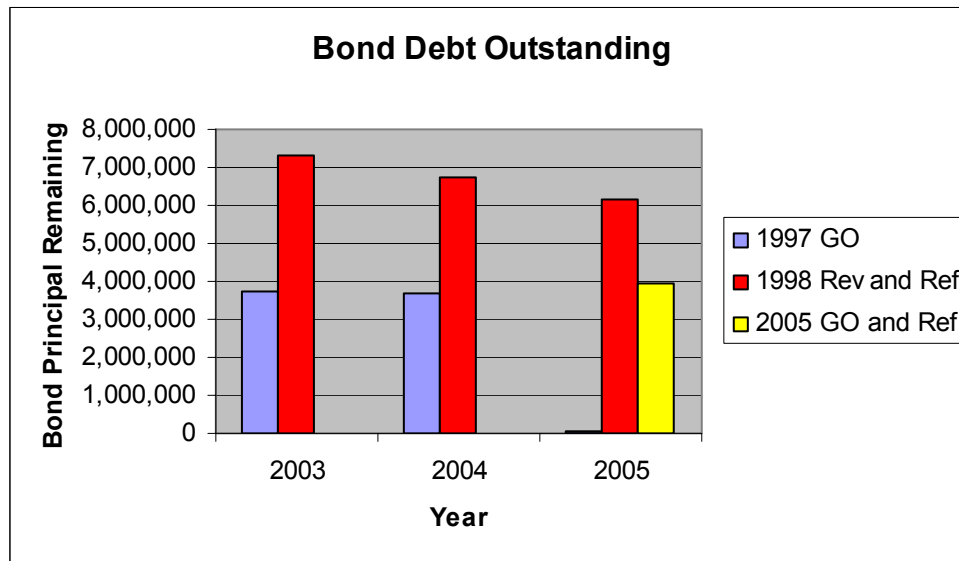
The Port’s current liabilities as of 12/31/2005 are debts that the Port will repay in 2006. The total current liabilities increased by \$154,506 in 2005. Current liabilities include payments for expenses already incurred, accrued interest on the Port’s bonds, the principal amount of the bond payments due in 2006, and payments for environmental remediation expenses that occurred in 2005.

The Port’s long term liabilities decreased in 2005, due to payments of bond principal, offset by refunding the Port’s 1997 General Obligation bonds. General Obligation bonds outstanding at 12/31/2005 amounted to \$3,975,000, an increase of \$280,000. In 2005, the Port refunded \$3,620,000 of its 1997 General Obligation bonds, replacing it with \$3,925,000 of 2005 General Obligation bonds. Revenue and Refunding bonds outstanding at 12/31/2005 amounted to \$6,175,000, a decrease of \$565,000 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

	2005	2004	Increase (Decrease)	Change
Operating revenues	\$4,739,201	\$ 4,544,197	\$ 195,004	4.29%
Nonoperating revenues	<u>3,836,114</u>	<u>294,527</u>	<u>3,541,587</u>	1202.47%
<b>Total Revenues</b>	<u>8,575,315</u>	<u>4,838,724</u>	<u>3,736,591</u>	77.22%
Operating expenses	4,811,638	3,818,708	992,930	26.00%
Nonoperating expenses	<u>1,329,351</u>	<u>1,054,429</u>	<u>274,922</u>	26.07%
<b>Total Expenses</b>	<u>6,140,989</u>	<u>4,873,137</u>	<u>1,267,852</u>	26.02%
<b>Increase in Net Assets</b>	<u>\$2,434,326</u>	<u>\$(__ 34,413)</u>	<u>\$2,468,739</u>	7173.86%

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 \$3,736,591 over 2004. Operating revenues increased by 4% over 2004. Nonoperating revenues increased by \$3,541,587 over 2004, due to settling a lawsuit and insurance reimbursement.

Expenses increased by \$1,267,852 over 2004, primarily due to legal fees related to three lawsuits and the environmental cleanup.

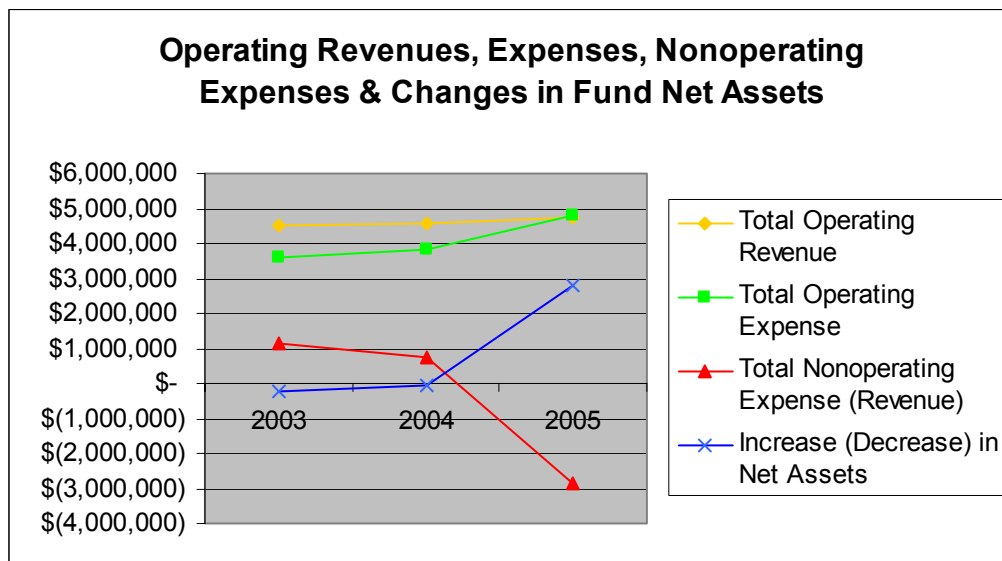
PORT OF EDMONDS  
MANAGEMENT DISCUSSION AND ANALYSIS

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

Nonoperating results included an increase in investment income of \$79,020, due to higher interest rates available compared to rates received on maturing investments. Interest expense decreased by \$55,375 as outstanding bond principal is repaid.

The Port has been working on resolving an environmental issue for several years. The Port expensed these costs as required by generally accepted accounting principles. The Port accrued environmental expenses and established an environmental liability of \$560,000 for cleanup in 2003, which was increased by an additional \$477,000 in 2004, and an additional \$732,000 in 2005. The Port completed this cleanup in 2005.



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

	2003	2004	2005
Total operating revenue	\$ 4,514,141	\$ 4,544,197	\$ 4,739,201
Total operating expense	3,609,355	3,818,708	4,811,638
Total nonoperating expense (revenue)	<u>1,134,816</u>	<u>759,902</u>	<u>(2,506,763)</u>
Increase (decrease) in net assets	\$( <u>230,030</u> )	\$( <u>34,413</u> )	\$ <u>2,434,326</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 on the previous page, 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 Flows

	2005	2004	Increase (Decrease)	Change
Cash flows from operating activities	\$ 1,471,903	\$ 1,878,673	\$( 406,770)	(21.65%)
Cash flows from noncapital financing activities	3,720,033	189,345	3,530,688	1864.69%
Cash flows from capital and related financing activities	(4,179,944)	(1,811,318)	(2,368,627)	130.77%
Cash flows from investing activities	<u>4,635,875</u>	<u>( 326,251)</u>	<u>4,962,127</u>	(1520.95%)
Net increase (decrease) in cash and cash equivalents	5,647,867	( 69,551)	5,717,418	(8220.47%)
Balances – beginning of the year	<u>1,569,326</u>	<u>1,638,877</u>	<u>( 69,551)</u>	(4.24%)
Balances – end of the year	<u>\$ 7,217,193</u>	<u>\$ 1,569,326</u>	<u>\$5,647,867</u>	359.89%

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 down 22% from 2004, which was expected as the Port’s attorneys prepared for three lawsuits. Noncapital financing cash flows include cash received from property taxes, customer deposits, settlement of a lawsuit, and insurance reimbursement for a portion of the legal fees. Capital activities include cash spent for the purchase of assets, principal and interest paid on capital debt, and environmental remediation. The Port spent \$4,179,944 on these items in 2005, \$2,368,626 greater than in 2004. Cash from investing activities show the net purchases and maturities of the Port’s investments, and the interest earned on those investments. In 2005, Port investments of \$5,290,382 matured and \$800,900 was reinvested.

Total cash and cash equivalents increased in 2005 by \$5,647,867 from 2004. The Port planned this increase in cash and cash equivalents to replace its north seawall, repair its mid-marina breakwater, and purchase Harbor Square buildings 1 through 7 in early 2006.

### 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 these issues are:

1. In March 2006, the Port settled its lawsuits with Harbor Square Associates. The settlement resulted in the Port's purchase of buildings 1 through 7 on the Harbor Square property and Harbor Square's leasehold interest in those buildings for \$13,500,000, plus the underpaid rent from the Port's lawsuit against Harbor Square. As part of the purchase, the Port issued a special revenue bond of \$10 million to Cascade Bank. The Port used \$3.5 million of its cash reserves on the purchase.
2. The Port took ownership of Harbor Square buildings 1 through 7 on March 31, 2006. The Port will be operating the property as a separate fund, and the property will be managed by a property management company.
3. The Port plans to complete its repair of the mid-marina breakwater in 2006 at an estimated cost of \$506,000.

### 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, 2005 and 2004, 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 24, 2006

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Members of Washington Society of Certified Public Accountants

PORT OF EDMONDS  
COMPARATIVE STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2005 AND 2004

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ASSETS

	<b>2005</b>	<b>2004</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 1)	\$ 6,766,432	\$ 1,134,586
Investments (Note 2)	-	4,439,676
Restricted Assets:		
Cash and cash equivalents (Note 1)	450,761	434,740
Taxes receivable (Notes 1 and 3)	6,058	5,717
Accounts receivable (net of allowance for uncollectibles) (Note 1)	67,327	273,527
Inventory (Note 1)	44,954	41,736
Prepays	127,112	125,152
Total Current Assets	7,462,644	6,455,134
<b>NONCURRENT ASSETS:</b>		
Restricted Assets:		
Investments (Notes 1 and 2)	800,900	800,900
Capital Assets: (Note 4)		
Property, plant and equipment	38,906,585	38,760,388
Construction in progress	2,492,515	531,919
Less: Accumulated depreciation	(10,799,788)	(9,841,537)
Total Noncurrent Assets	31,400,212	30,251,670
Other Noncurrent Assets:		
Lease acquisition costs, net of accumulated amortization (Note 1)	317,440	380,927
Deferred interest	380,850	219,236
Total Other Noncurrent Assets	698,290	600,163
<b>TOTAL ASSETS</b>	<b>\$ 39,561,146</b>	<b>\$ 37,306,967</b>

See accompanying notes and accountant's compilation report.

PORT OF EDMONDS  
COMPARATIVE STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2005 AND 2004

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LIABILITIES

	<u>2005</u>	<u>2004</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 517,383	\$ 193,827
Accrued expenses (Note 1)	233,750	235,727
Accrued interest payable	155,148	185,458
Customer deposits	276,412	249,486
Current portion of long-term obligations (Note 8)	655,000	590,000
Environmental remediation liability (Notes 1, 9, and 10)	264,953	493,642
	<u>2,102,646</u>	<u>1,948,140</u>
<b>NONCURRENT LIABILITIES:</b>		
General obligation bonds, net of current portion (Note 8)	3,857,495	3,617,169
Revenue bonds, net of current portion (Note 8)	5,518,296	6,093,275
	<u>9,375,791</u>	<u>9,710,444</u>
	<u>11,478,437</u>	<u>11,658,584</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	20,568,521	19,150,326
Unrestricted	7,514,188	6,498,057
	<u>28,082,709</u>	<u>25,648,383</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>28,082,709</u></b>	<b>\$ <u>25,648,383</u></b>

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, 2005 AND 2004

	<b>2005</b>	<b>2004</b>
<b>OPERATING REVENUES:</b>		
Marina operations	\$ 4,071,330	\$ 3,915,833
Property lease/rental operations	667,871	628,364
Total Operating Revenues	4,739,201	4,544,197
<b>OPERATING EXPENSES:</b>		
General operations	2,682,932	2,039,264
Maintenance	171,376	84,933
General and administrative	935,591	656,996
Depreciation and amortization (Note 4)	1,021,739	1,037,515
Total Operating Expenses	4,811,638	3,818,708
Operating Income (Loss)	(72,437)	725,489
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment income	196,199	117,179
Taxes levied for general purposes (Note 3)	177,858	174,377
Loss on disposition of fixed assets	(59,664)	(26)
Interest expense (Note 8)	(521,670)	(577,045)
Environmental remediation expense (Notes 1, 9, and 10)	(801,115)	(477,000)
Election expense	(6,131)	-
Other nonoperating revenues (expenses)	(435)	2,613
Total Nonoperating Expenses	(1,014,958)	(759,902)
Loss before other revenues, expenses, gains, losses, and transfers	(1,087,395)	(34,413)
Settlement of Lawsuit (Notes 9, 10, and 13)	3,100,000	-
Reimbursement of Attorney Fees from Insurance Companies (Note 13)	413,669	-
Insurance Reimbursement for Damage (Note 13)	8,052	-
Increase (decrease) in net assets	2,434,326	(34,413)
Net assets - beginning of period	25,648,383	25,682,796
Net assets - end of period	\$ 28,082,709	\$ 25,648,383

See accompanying notes and accountant's compilation report.

PORT OF EDMONDS  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 4,934,428	\$ 4,519,391
Payments to suppliers	(2,084,602)	(1,358,632)
Payments to employees	<u>(1,377,923)</u>	<u>(1,282,086)</u>
Net cash provided by operating activities	<u>1,471,903</u>	<u>1,878,673</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from property taxes (Note 3)	177,517	175,144
Proceeds from settlement (Notes 9, 10, and 13)	3,100,000	-
Proceeds from insurance (Note 13)	421,721	-
Customer deposits	26,926	11,204
Election payments	(6,131)	-
Miscellaneous revenue, net	<u>-</u>	<u>2,997</u>
Net cash provided by noncapital financing activities	<u>3,720,033</u>	<u>189,345</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases and construction of capital assets (Note 4)	(2,166,458)	(161,243)
Principal paid on capital debt (Note 8)	(590,000)	(575,000)
Interest paid on capital debt (Note 8)	(393,247)	(531,333)
Environmental remediation (Notes 9 and 10)	(1,029,804)	(543,358)
Other receipts payments	<u>(435)</u>	<u>(384)</u>
Net cash used by capital and related financing activities	<u>(4,179,944)</u>	<u>(1,811,318)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Maturities of certificates of deposit (Note 2)	5,290,382	5,236,550
Purchases of certificates of deposit (Note 2)	(800,900)	(5,600,900)
Interest and dividends	<u>146,393</u>	<u>38,099</u>
Net cash provided (used) by investing activities	<u>4,635,875</u>	<u>(326,251)</u>
Net increase (decrease) in cash and cash equivalents	5,647,867	(69,551)
Balances - beginning of the year	<u>1,569,326</u>	<u>1,638,877</u>
Balances - end of the year (Note 1)	<u>\$ 7,217,193</u>	<u>\$ 1,569,326</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	\$ (72,437)	\$ 725,489
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	1,021,739	1,037,515
Change in assets and liabilities:		
Receivables, net	206,200	(21,230)
Inventories	(3,217)	(17,689)
Prepaid expenses	(1,961)	(12,930)
Accounts and other payables	323,556	130,940
Accrued expenses	<u>(1,977)</u>	<u>36,578</u>
Net cash provided by operating activities	<u>\$ 1,471,903</u>	<u>\$ 1,878,673</u>

See accompanying notes and accountant's compilation report.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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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 Port has elected not to apply Financial Accounting Standards Board (FASB) guidance issued after November 20, 1989, to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements).

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 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; and 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, 2005 AND 2004

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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, 2005 and 2004, the treasurer was holding \$7,217,193 and \$1,569,326, 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. Short-Term Investments - See Note 2.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Note 3).

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.

See accountant's compilation report.

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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, 2005 and 2004.

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:

	12/31/2005	12/31/2004
Restricted current assets, cash and cash equivalents – Debt service account	\$ 450,761	\$ 434,740
Restricted non-current assets, investments – Bond reserve account	<u>800,900</u>	<u>800,900</u>
Total restricted assets	<u>\$ 1,251,661</u>	<u>\$ 1,235,640</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 \$634,879 and \$571,391 at December 31, 2005 and 2004, respectively.

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

See accountant's compilation report.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equities (Continued)

8. Unamortized Debt Issuance Costs

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

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).

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 short-term investments are stated at cost. Other property and investments are shown on the statement of net assets at cost.

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>2005 Value</u>	<u>2004 Value</u>
Certificates of deposit	<u>\$800,900</u>	<u>\$5,240,576</u>

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. 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.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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NOTE 3 – PROPERTY TAXES (CONTINUED)

The district 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.

The Port's regular levy for 2005 was approximately \$0.0612 per \$1,000 on an assessed valuation of \$2,856,080,850 for a total regular tax levy of \$175,000. In 2004, the regular tax levy was \$175,000.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

- A. Major 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, 2005 AND 2004

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

B. Capital assets activity for the year ended December 31, 2005, was as follows:

	Beginning Balance 1/1/2005	Increases	Decreases	Ending Balance 12/31/2005
Capital assets, not being depreciated:				
Land	\$ 3,973,675	\$ -	\$ -	\$ 3,973,675
Construction in progress	<u>531,919</u>	<u>3,105,576</u>	<u>1,144,980</u>	<u>2,492,515</u>
Total capital assets, not being depreciated	<u>4,505,594</u>	<u>3,105,576</u>	<u>1,144,980</u>	<u>6,466,190</u>
Capital assets, being depreciated:				
Buildings and structures	1,822,133	-	-	1,822,133
Machinery and equipment	1,275,899	5,018	-	1,280,917
Other improvements	<u>31,688,681</u>	<u>141,179</u>	<u>-</u>	<u>31,829,860</u>
Total capital assets, being depreciated	<u>34,786,713</u>	<u>146,197</u>	<u>-</u>	<u>34,932,910</u>
Less accumulated depreciation for:				
Buildings and structures	989,257	62,360	-	1,051,617
Machinery and equipment	951,762	64,161	-	1,015,923
Other improvements	<u>7,900,518</u>	<u>831,730</u>	<u>-</u>	<u>8,732,248</u>
Total accumulated depreciation	<u>9,841,537</u>	<u>\$ 958,251</u>	<u>\$ -</u>	<u>10,799,788</u>
Total capital assets, being depreciated, net	<u>\$24,945,176</u>			<u>\$24,133,122</u>

See accountant's compilation report.

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

C. Construction Commitments

The Port has active construction projects as of December 31, 2005. The projects and the Port's commitments with contractors are as follows:

Project	Spent to date	Remaining Commitment
Administration building seismic evaluation	\$ 91,845	\$ -
City portion of joint project	2,217	-
Dry stack expansion	11,927	-
Edmonds Yacht Club building, new	1,598	-
Harbor Square property purchase	348,836	13,700,000
M/N dock gangway replacement	3,371	-
Maintenance building	6,914	-
Mid-marina breakwater	41,949	465,000
North boardwalk	21,841	-
North seawall	1,790,464	182,000
Northeast parking lot	98,928	-
Public plaza	42,406	-
Weather Station	30,219	-
<b>Total</b>	<b>\$ 2,492,515</b>	<b>\$ 14,347,000</b>

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*.

See accountant's compilation report.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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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 benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

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

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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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 1,169 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	66,896
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	21,031
Active Plan Members Vested	103,039
Active Plan Members Nonvested	<u>53,217</u>
Total	<u>244,183</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, 2005 AND 2004

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, 2005 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	2.44%	2.44%	2.44%**
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>
2005	\$5,114	\$13,701	\$218
2004	\$3,713	\$ 8,823	\$123
2003	\$3,563	\$ 7,200	\$193

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, 2005 AND 2004

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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 claim, while the Pool is responsible for the remaining \$495,000 on liability losses. The member is responsible for the first \$5,000 on property loss, while the Pool is responsible for the remaining \$95,000 on property losses. The pool is not responsible for any boiler or 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 continue membership for a period of not less than one year, and must give notice 60 days before terminating participation. The Intergovernmental Contract is automatically renewed after the initial one full fiscal year commitment. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Intergovernmental Contract.

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

A Board of Directors consisting of seven 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. Bonded indebtedness has also been entered into in 1998 and 2005 to advance refund several general obligation and revenue bonds.

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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

A. Long-Term Debt (Continued)

The general obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Maturity Range</u>	<u>Interest Rate</u>	<u>Amount</u>
Infrastructure improvement to marina including marina reconstruction, bulkhead/promenade improvements, and a new dry stack storage facility	6/1/06 - 6/1/07	5.05% - 5.10%	\$ 50,000
Refund 1997 G.O. bonds	6/1/06 - 6/1/17	3.00% - 4.10%	\$3,925,000

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

<u>Year Ending</u> <u>December 31</u>	<u>1997 G.O. Bonds</u>		<u>2005 G.O. &amp; Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 25,000	\$ 1,906	30,000	\$ 155,289
2007	25,000	638	35,000	154,314
2008			65,000	152,733
2009			65,000	150,620
2010			70,000	148,339
2011-2015			2,160,000	596,680
2016-2017			<u>1,500,000</u>	<u>61,932</u>
Total	\$ <u>50,000</u>	\$ <u>2,544</u>	\$ <u>3,925,000</u>	\$ <u>1,419,907</u>

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

<u>Purpose</u>	<u>Maturity Range</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	7/1/06 - 7/1/17	4.25% - 4.80%	\$6,175,000

See accountant's compilation report.

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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

A. Long-Term Debt (Continued)

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

Year ending December 31	Principal	Interest
2006	\$ 600,000	\$ 279,590
2007	625,000	254,090
2008	650,000	227,215
2009	675,000	198,940
2010	700,000	168,903
2011-2015	2,310,000	409,170
2016-2017	<u>615,000</u>	<u>44,640</u>
Total	<u>\$ 6,175,000</u>	<u>\$ 1,582,548</u>

RCW 39.36 limits the amount of general obligation debt that the Port may issue. Bond indebtedness without a vote is limited to .25% of the assessed value of the taxable property in the Port District.

At December 31, 2005, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total taxable property value	\$ 2,856,080,850
General Purpose indebtedness without a vote	\$ 7,140,202
Indebtedness incurred	<u>5,422,646</u>
Margin of indebtedness available without a vote	<u>\$ 1,717,556</u>

The Port's revenue bonds require the Port to maintain a 1.35 coverage requirement. The Port's debt service coverage ratio was 3.94 and 1.53 for December 31, 2005, and 2004, respectively.

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, 2005 and 2004, the Port had \$1,251,661 and \$1,235,640 respectively, available in sinking funds and reserves as required by bond indentures.

PORT OF EDMONDS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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

B. Refunded Debt

The Port of Edmonds refunded \$3,620,000 of its 1997 General Obligation Bonds in 2005. The 1997 General Obligation Bonds were originally issued for \$3,800,000. \$50,000 of the bonds remain, maturing in June 2006 and June 2007.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2005, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2005	Additions	Reductions	Ending Balance 12/31/2005	Due Within One Year
Bonds payable:					
G.O. & refunding bonds	\$3,670,000	\$3,925,000	\$3,675,000	\$3,920,000	\$ 55,000
Revenue & refunding bonds	6,175,000	-	600,000	5,575,000	600,000
Less deferred amounts:					
For issuance costs	134,556	79,593	82,069	132,080	-
Add deferred amounts:					
For bond premiums	-	13,591	720	12,871	-
Total bonds payable	<u>\$9,710,444</u>	<u>\$3,858,998</u>	<u>\$4,193,651</u>	<u>\$9,375,791</u>	<u>\$655,000</u>

NOTE 9 – ACCRUED ENVIRONMENTAL LIABILITIES

The Port, based on engineering estimates, accrued a \$731,930 liability in 2005 to cover the expenses related to environmental remediation associated with the contamination in an area of Harbor Square, a rental property. The Port pursued litigation against potentially responsible parties, and settled with the parties for \$3,100,000 in November 2005. 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.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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NOTE 10 – CONTINGENCIES AND LITIGATION (CONTINUED)

A. All Liabilities (Continued)

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 guidelines. The costs of cleanup for 2005 and 2004 were \$1,029,804 and \$543,358, respectively. Future estimated costs for this cleanup are \$265,000. Total estimated cleanup costs are \$1,839,000.

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 Cross claim, seeking contribution from the Port if Unocal is found liable. The Port of Edmonds settled its lawsuit with Unocal in November 2005.

PORT OF EDMONDS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

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NOTE 10 – CONTINGENCIES AND LITIGATION (CONTINUED)

C. Litigation (Continued)

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. 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 Port of Edmonds and Harbor Square settled both lawsuits through mediation in November 2005. The Port agreed to purchase buildings 1 through 7 and Harbor Square's leasehold interest in those buildings from Harbor Square for \$13,500,000 and the underpaid rent from the Port's lawsuit against Harbor Square was settled per the mediation agreement. This purchase was finalized in March 2006.

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 of 2005 and 2004 the Port paid interest of \$393,247 and \$531,333, respectively.

NOTE 13 – OTHER DISCLOSURES

A. Special Items

As per Note 9, the Port of Edmonds settled its litigation in November 2005 for \$3,100,000 with parties potentially responsible for the environmental contamination discussed in Note 10.

The Port of Edmonds requested and received reimbursement for attorney fees of \$413,669 related to the Harbor Square Associates lawsuit against the Port of Edmonds. The Port also received an insurance reimbursement of \$8,052 for damage done to one of the Port buildings.

B. Subsequent Events

As per Note 10, the Port of Edmonds and Harbor Square settled both lawsuits in November 2005. The Port purchased buildings 1 through 7 and Harbor Square's leasehold interest in those buildings from Harbor Square for \$13,500,000 plus the underpaid rent from the Port's lawsuit against Harbor Square. This purchase was finalized in March 2006.

As part of the purchase, the Port issued a special revenue bond of \$10 million to Cascade Bank. The Port used \$3.5 million of its cash reserves on the purchase.

**SUPPLEMENTARY INFORMATION**

PORT OF EDMONDS  
 DETAIL OF REVENUES AND OTHER SOURCES  
 For the Year Ended December 31, 2005

MCAG No. 1759

Schedule 04

BARS Revenue Account No.	Description	Actual Revenues
621.00	Marina user charges	\$ 2,524,354
622.00	Marina user charges	8,495
625.00	Marina real property rentals – facilities	94,259
626.00	Marina real property rentals – facilities	1,289,469
627.00	Marina personal property rentals – w/ port operators	153,029
629.00	Other	<u>1,724</u>
620.00	Total Marina Revenues	<u>4,071,330</u>
664.00	Real property rentals – land	422,706
665.00	Real property rentals – facilities	<u>245,165</u>
660.00	Total Property Lease/Rental Revenues	<u>667,871</u>
699.10	Interest income	196,199
699.20	Ad valorem taxes	177,858
699.40	Gains and losses	(59,664)
699.50	Special items	3,513,669
699.90	Other	<u>8,052</u>
699.00	Total Nonoperating Revenues	<u>3,836,114</u>
600.00	Total Revenues	\$ <u>8,575,315</u>

See accountant's compilation report.

PORT OF EDMONDS  
 DETAIL OF EXPENSES AND OTHER USES  
 For the Year Ended December 31, 2005

MCAG No. 1759

Schedule 05

BARS Revenue Account No.	Description	Actual Expenses
721.00	Marina operations	\$ 2,036,590
723.00	Marina maintenance	92,896
725.00	Marina allocated general and administrative	830,648
727.00	Marina depreciation	<u>935,993</u>
720.00	Total Marina Expenses	<u>3,896,127</u>
761.00	Property lease/rental operations	721,584
763.00	Property lease/rental maintenance	3,239
765.00	Property lease/rental allocated general and administrative	136,262
767.00	Property lease/rental depreciation	<u>54,426</u>
760.00	Total Property Lease/Rental Expenses	<u>915,511</u>
799.90	Other expense	435
799.91	Interest expense	521,670
799.92	Election expense	6,131
799.98	Environmental expense	<u>801,115</u>
790.00	Total Nonoperating Expenses	<u>1,329,351</u>
700.00	Total Expenses	\$ <u>6,140,989</u>

See accountant's compilation report.

PORT OF EDMONDS  
 SCHEDULE OF REAL AND PERSONAL PROPERTY TAXES  
 For the Year Ended December 31, 2005

MCAG No. 1759

Schedule 08

1	2	3	4	5	6	7
TAXES RECEIVABLE 1/1/05	TAX RATE \$/1,000	TAXES LEVIED REPORT YEAR	TAXES COLLECTED	TAX ADJUSTMENT		TAXES RECEIVABLE 12/31/05 (1+3-4+5-6)
				INCREASES	DECREASES	
\$ 5,717	0.061	\$ 174,865	\$ 174,394	\$ 6	\$ 136	\$ 6,058

See accountant's compilation report.

PORT OF EDMONDS  
 SCHEDULE OF LONG-TERM DEBT  
 For the Year Ended December 31, 2005

G.O. Debt  
 Revenue 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 1/1/05	(2) AMOUNT ISSUED IN CURRENT YEAR	(3) AMOUNT REDEEMED IN CURRENT YEAR	(4) ENDING OUTSTANDING DEBT 12/31/05 (1)+(2)-(3)
251.11	Reconstruction	06/01/97	06/01/17	\$3,695,000	\$ -	\$3,645,000	\$ 50,000
251.15	Refund 1997 Bonds	05/01/05	06/01/17	_____ -	<u>3,925,000</u>	_____ -	<u>3,925,000</u>
	Total G.O. Debt			<u>\$3,695,000</u>	<u>\$3,925,000</u>	<u>\$3,645,000</u>	<u>\$3,975,000</u>

See accountant's compilation report.

PORT OF EDMONDS  
 SCHEDULE OF LONG-TERM DEBT  
 For the Year Ended December 31, 2005

\_\_\_ G.O. Debt  
X Revenue Debt

MCAG No. 1759

Schedule 09  
 Page 2 of 2

I.D. NO.	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	(1) BEGINNING OUTSTANDING DEBT 1/1/05	(2) AMOUNT ISSUED IN CURRENT YEAR	(3) AMOUNT REDEEMED IN CURRENT YEAR	(4) ENDING OUTSTANDING DEBT 12/31/05 (1)+(2)-(3)
252.11 252.15 Total '98 Rev Bond	Improvements Refunding	01/30/98	07/01/17	\$6,740,000		\$565,000	\$6,175,000

See accountant's compilation report.



PORT OF EDMONDS  
 SCHEDULE OF LIMITATION OF INDEBTEDNESS  
 AS OF DECEMBER 31, 2005

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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 -		0
Indebtedness Incurred - Section III		0
Margin Of Indebtedness Available - Section III		0

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 -		0
Indebtedness Incurred - Section IV		0
Margin Of Indebtedness Available - Section IV		0

Total Indebtedness Allowable - Section I - IV (Legal Limit 1.25%)	21,420,606
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Less: Indebtedness Incurred (Section I - IV)	5,422,646
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MARGIN OF INDEBTEDNESS AVAILABLE	\$ 15,997,960
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